Chap. 6 : post-war development of general trading companies

6

Post-War Development of General Trading Companies

Tsuneo Suzuki

Introduction

This chapter analyses the activities and the function of general trading companies in the post-war Japanese economy during its high growth period. In other words, an attempt is made to see how these firms adapted themselves to the changes that took place in the Japanese economy in this period or how they promoted these changes on the basis of their activities in specific industries. Finally, I will discuss certain fundamental functions of general trading companies. Therefore, this chapter will first analyse the development and changes in the Japanese economy after the end of World War II as they manifested themselves in trade and investment in accordance with a specific periodization. This will be followed by a look at the activities of general trading companies in each period thus established.

It will be useful to have an overall picture of post-war general trading companies in Japan for these purposes. They handle a great diversity of merchandise, are often described as dealing in anything from Chinese noodles to missiles, vigorously attempting to penetrate overseas markets to trade in a large number of countries, and to place themselves also at the core of firm groups in the domestic scene to carry out various related businesses such as transportation, warehousing, and insurance. They possess enormous power to procure financial resources, based upon which they extend financing services to small and medium-sized enterprises. But their essential function remains the same, that is, to concentrate all these various functions within themselves so that they can integrate all the activities, such as the introduction of new technologies, the importation of raw materials, and the production of finished goods. They try to do this by imposing their presence at the input and output points of a large number of firms. To organize the flow of merchandise is the essence of the functions of trading companies, and this will be the point of emphasis in describing their activities.

The end of World War II was followed in the Japanese economy by a skewed production system that arose in 1947, moving from production on a diminishing scale to that on an expanded scale. Following the Dodge-line policy of 1949 and the start of the Korean War in 1950, there began a period of high growth. By 1955 the Japanese economy had surpassed the pre-war level, inspiring the popular phrase, "this is not 'post-war' any more." The decade of 1955–1964 was consistently a period of high growth, albeit accompanied by business cycles. In 1960 foreign exchange controls were dismantled for foreign trade. But after the turning point in 1962, a severe recession set in in 1965. It produced a number of large-scale bankruptcies, but the recession was short-lived and served to usher in the second period of high growth. This second high growth period, 1965–1974, was somewhat different from the previous one in that consumer durables and an export boom supported the economic performance, thus avoiding tight money policies or tapering off of the boom. But around 1970 an inflationary trend revealed itself in the Japanese economy due to the inflow of foreign reserves caused by a trade surplus. At the same time the world economy saw certain structural changes caused by the 1971 US decision not to redeem the dollar to gold and the 1973 oil shock following the Yom Kippur War. These structural changes forced Japanese enterprises to change their strategy from that of vigorous expansion to a defensive one with intra-company streamlining efforts. Thus, "the post-war Japanese economy grew persistently at a high rate (10 per cent per annum) with no changes worthy of mentioning until the 1973 oil crisis."[1]

Let us first examine Japan's export performance in the post-war period, referring to table 1. In the early 1950s, light industry goods occupied over half of the total export volume, and textile goods, nearly 49 per cent. Iron and steel products fared rather well, while machinery accounted for only about 13 per cent. In terms of the composition of exports, the pre-war pattern remained essentially unchanged until about 1955, with textiles in the leading role. After 1956, the composition of exports underwent changes, with the volume of heavy and chemical industry goods, particularly machinery, rising and that of light industry goods, particularly textile products, declining in their shares. In the 1956–1965 period, there were rising proportions of iron and steel, electric machinery, and ships as important export items, although they did not push down the now lower shares of textiles below the 30 per cent level. After 1966, iron and steel and machinery came to hold top positions in exports as a result of the strengthened competitive power during the 1955–1965 period of high growth, and they remained in that leadership position for some time. In terms of the destination of these exports, the United States remained the biggest export market for Japan throughout the 1956–1965 period, accounting for 30 per cent, even more than Japan's total exports to South-East Asia after 1960. We may conclude, therefore, that the composition of exports in the early 1950s remained unchanged from the pre-war years, that the 1956–1965 period started to see some inroads of new categories of export goods with textiles, iron and steel, and machinery in the high-ranking positions, and that after 1966 textiles started to lose their shares

Table 1. Composition of exports (f.o.b.) (in $ million)

	1951–1955 average		1956–1960 average		1961–1965 average		1966–1969 average	
	Volume	%	Volume	%	Volume	%	Volume	%
Foodstuffs	106.2	(7.1)	223.0	(7.0)	312.1	(5.2)	439.7	(3.6)
Raw material & fuel			50.9	(1.6)	95.2	(1.6)	140.6	(1.1)
Heavy ind. goods	553.2	(36.7)	1,316.1	(41.7)	3,277.5	(55.1)	8,244.8	(67.0)
Machinery	191.0	(12.7)	775.3	(24.6)	1,904.9	(32.0)	5,238.7	(42.6)
Ships	52.2	(3.5)	318.4	(10.1)	419.3	(7.1)	1,009.4	(8.2)
Electric machinery			139.7	(4.4)	590.3	(9.9)	1,698.3	(13.8)
Automobiles			47.7	(1.5)	168.9	(2.8)	610.0	(5.0)
Metals & metal products	291.8	(19.3)	399.6	(12.6)	1,033.6	(17.5)	2,211.8	(18.0)
Iron & steel	206.2	(13.7)	264.7	(8.4)	762.6	(12.8)	1,611.0	(13.1)
Chemicals	70.4	(4.7)	141.2	(4.4)	339.0	(5.7)	794.2	(6.5)
Light ind. goods	848.4	(56.2)	1,562.2	(49.7)	2,260.9	(38.0)	3,483.4	(28.3)
Textiles & textile goods	589.8	(39.1)	1,004.5	(31.8)	1,334.4	(22.4)	1,930.9	(15.7)
Non-metal mining products	69.2	(4.6)	121.8	(3.8)	209.8	(3.5)	325.0	(2.6)
Other	189.4*	(12.5)	477.2	(15.2)	717.6	(12.1)	1,225.1	(10.0)
Total	1,508.6	(100.0)	3,149.2	(100.0)	5,945.8	(100.0)	12,308.4	(100.0)

Sources:

1. For 1951–1955, MITI, ed., *Sengo Nihon no bōeki 20-nen shi* (20-year history of foreign trade in post-war Japan) (Tokyo, Tsusho Sangyo Chosakai, March 1967), pp. 38–39.
2. For 1956–1960, 1961–1965, 1966–1969, Ouchi Tsutomu, ed., *Gendai Nihon keizai ron* (Study of contemporary Japanese economy) (Tokyo, University of Tokyo Press, 1971), p. 58, citing the white paper from MITI for each year.

Note:

* "Other" in the light industrial products for 1951–1955 includes raw materials and fuel.

Table 2. Composition of imports (c.i.f.) (in $ million)

	1951–1955 average		1956–1960 average		1961–1965 average		1966–1969 average	
	Volume	%	Volume	%	Volume	%	Volume	%
Foodstuffs	602.3	(26.6)	537.9	(14.4)	1,072.0	(15.7)	1,875.0	(15.2)
Raw materials	1,160.0	(51.3)	1,812.5	(48.6)	2,857.2	(41.7)	4,658.1	(37.9)
Textile raw materials	621.1	(27.5)	715.5	(19.1)	859.5	(12.5)	924.8	(7.5)
Metal raw materials	154.0	(6.8)	512.3	(13.7)	883.9	(12.9)	1,607.2	(13.1)
Mineral fuel	247.9	(11.0)	581.1	(15.6)	1,243.5	(18.1)	2,440.6	(19.8)
Coal			118.3	(3.1)	210.6	(3.1)	474.2	(3.9)
Crude oil			345.7	(9.2)	784.9	(11.4)	1,562.3	(12.7)
Manufactured goods, other	250.6	(11.1)	795.9	(21.4)	1,682.0	(24.5)	3,325.5	(27.0)
Chemicals	59.2	(2.6)	199.6	(5.4)	372.6	(5.4)	645.0	(5.2)
Machinery	130.9	(5.8)	266.1	(7.1)	790.1	(11.5)	1,208.8	(9.8)
Other	60.5	(2.7)	267.6	(7.1)	522.4	(7.6)	1,471.7	(12.1)
Total	2,260.7	(100.0)	3,727.4	(100.0)	6,837.9	(100.0)	12,299.2	(100.0)

Sources: See table 1 sources.

while iron and steel as well as machinery (automobiles and electric machinery) came to assume the greatest importance.

What took place on the import front during the same period? Referring to table 2, we note that in the early 1950s, textile raw materials occupied an overwhelming position, accounting for nearly 28 per cent of the total imports, corresponding to the leading share of textile products in exports. Foodstuffs occupied nearly 27 per cent, also noteworthy. When metal raw materials are added, foodstuffs and raw materials together amount to 78 per cent of the total imports. In the 1956–1965 period, the share of textile raw materials declined, due to both the declining share of textile products in total exports and the relative decline of natural fabrics caused by the rising prevalence of chemical and synthetic fibres. Also in this period, there was a conspicuous rise in the import shares of metal raw materials, machinery, and crude oil. This is a reflection of such features of high economic growth as the expansion of the iron and steel industry early on, the introduction of machinery and new technologies in a variety of sectors, and the energy conversion from dependence on coal to oil. The rising absolute volumes of all export items after 1966 caused no change in their respective shares, the resulting composition remaining quite similar to the pattern of the preceding period. Imports underwent dramatic change in composition at the start of the high economic growth period of 1956–1965, remaining rather static in composition thereafter, while exports experienced gradual changes in this period, going through a transition phase.

Lastly, let us look at plant and equipment investments, referring to table 3. In the 1956–1965 period, the following were leading sectors in investment, in order of their investment scale: electricity, iron and steel, machinery, and chemicals. This clearly reflects the on-going heavy-chemical industrialization during the high growth period. Investments went unabated after 1966 and continued at a rapid pace up until the time of the Nixon Shock and the first oil crisis in 1973. In the period after 1966, the same thriving industries of electricity, iron and steel, machinery, and chemicals from the previous period absorbed the highest shares of investment. One conspicuous case to be noted in its investment performance is the petroleum industry.

General Trading Companies in the 1945–1954 Period

The decade of 1945–1954 is important for general trading companies as it was the phase in which the special features and functions of these firms described above were forged. In this sense, this was not the period in which they displayed their full force. Only conditions necessary for maintaining their success were being met in this period. This becomes evident when examining the following four areas: (1) What is the significance of Mitsui Bussan and Mitsubishi Shoji being formed by the process of grand mergers in the development of general trading companies? (2) How did Marubeni and C. Itoh develop from among the "Five Cotton Traders" of the Kansai area? (3) How did

Table 3. Investment by industry* (in ¥100 million)

	1956–1958	1959–1961	1962–1965	1966–1969	1970–1973
Electricity	5,810	8,689	13,325	18,574	40,401
Gas	603	781	1,182	2,327	5,000
Coal	450	846	1,308	1,613	2,673
Mining	425	539	900	1,648	2,626
Iron & steel	2,584	6,434	7,377	15,749	24,681
Non-ferrous metals	347	988	1,623	3,308	5,618
Petroleum	1,161	2,036	3,695	8,081	14,570
Machinery	2,068	7,193	11,440	20,573	33,584
Industrial machinery	240	1,179	1,832	2,974	4,944
Electronic machinery	226	930	1,484	5,349	8,814
Electric machinery	685	1,831	1,927		
Automobiles	544	2,079	4,817	9,924	14,554
Chemicals	2,226	4,685	8,702	14,163	21,566
Chemical fertilizer	602	596	839	1,476	1,530
Synthetic resin	197	448	917	1,241	2,534
Petrochemical	558	1,325	3,201	6,058	8,415
Organic synthetic products	234	606	1,350	1,383	2,836
Textiles	2,097	2,035	3,818	4,443	7,000
Synthetic fibres	577	794	2,104	2,114	2,888
Paper & pulp	805	1,359	1,725	2,888	5,000
Ceramic industry	719	1,317	2,582	3,274	5,183
Cement	499	834	1,678	1,837	3,076
Building materials	79	88	247	541	2,462
Sundry goods	28	48	162	583	1,108
Wholesale & retail	167	187	533	2,276	8,480
Total	19,871	37,226	58,699	100,040	181,779

Sources: Ando Yoshio, ed., *Kindai Nihon keizaishi yōran* (A handbook of modern Japanese economic history) (Tokyo, University of Tokyo Press, 1973), p. 165, drawing on MITI, Planning Bureau, *Minkan setsubitōshi no chūki tembō* (Interim forecast of private investment in plant and equipment) (Tokyo, MITI, February 1973), and idem, Industrial Policy Bureau, *Shuyō sangyō no setsubitōshi keikaku* (Plans of investment in plant and equipment in key industries) (Tokyo, MITI, 1974).

*Figures are on payment basis.

Nissho-Iwai, not a member of the Big Five mentioned above, develop? and (4) How did Sumitomo Shoji succeed in becoming a general trading company starting only after the end of World War II?

Both Mitsui Bussan and Mitsubishi Shoji were designated as holding companies on 28 December 1946 and were placed under the control of the Holding Company Liquidation Commission.[2] While they themselves made plans for splitting themselves in consultation with the General Headquarters of the Occupation Forces (GHQ), the GHQ issued a memorandum, "Dissolution of Trading Companies," on 3 July 1947, ordering their dissolution.[3] They immediately went about the business of liquidation, but remained legally solvent until 30 November, when they officially started to liquidate.[4] While Mitsui Bussan had its 7,058 employees distributed among about 233 companies, Mitsubishi Shoji had 4,086 employees scattered among about 139 companies.[5] These offsprings of the two big trading companies started to regroup themselves again in preparation for grand mergers, but the GHQ reissued the memorandum on 13 October 1950 to counter such a move.[6] Furthermore, dissolution of these two companies was effected in a hurried manner in the face of the coming resumption of foreign trade, allegedly in order to avoid "confusion."[7]

Many of the offspring, quite small in size, were established with a capital of less than 195,000 yen, mainly for the convenience afforded them in acquiring authorization in such cases of small capitalization, but what was the criterion according to which these new companies were created? In the case of the Mitsubishi group, it had presented the GHQ with its own plan of dissolution. Although it ultimately was rejected by the GHQ, the principle of creating new companies along product lines was apparent. The plan envisaged the following five sales sections becoming independent firms as a result of dissolution: (1) foodstuffs, (2) lumber, (3) transportation, (4) textiles, and (5) other.[8] Since this plan did not meet the wishes of the GHQ, Mitsubishi Shoji was split up into over 139 companies, but these offsprings were set up roughly along the categories of products they dealt in, at least in comparison with the case of Mitsui firms, where new companies were established, admittedly in some cases along product lines, but more often than not around certain branch offices and around certain individuals. Mitsui's principle in splitting itself was more vague than that of its rival, Mitsubishi.

When in 1950 these offsprings started to prepare themselves for grand mergers, the Korean War broke out, which strongly promoted a trend for regrouping. This was because the big boom induced by the war procurement measures and the ensuing crash following armistice resulted in substantial discrepancies in profit performance among the offsprings. Theoretically speaking, mergers could take place between any companies doing equally well, but in actuality it was the firms in trouble that were absorbed. Existing differences in performance within the context of the unstable economic conditions after World War II were only aggravated by the Korean War. By 1952, certain definite candidates to succeed the pre-war giant trading cor-

porations had already emerged, assuming grand mergers would eventually take place.

With respect to the actual process of grand mergers, there is the traditional approach of accounting for the different timings for the two cases (Mitsubishi Shoji was rehabilitated on 1 July 1954, while it took Mitsui Bussan until 15 February 1959 to re-establish itself) by emphasizing the organizational superiority of Mitsubishi and the personnel-orientation of Mitsui, or alternatively as a reflection of post-war changes in the relative strength of the two groups from pre-war days. But there arise some other issues to be addressed when the phenomenon is viewed from the standpoint of post-war reformation of general trading companies.

To start with, the process of grand mergers was also the process of consolidation of Mitsui Bank and Mitsubishi Bank as the main banks of the two trading firms. Not all the offsprings of Mitsui Bussan dealt with Mitsui Bank as their principal bank. Some went to Fuji Bank, while others went to Daiichi Bank as their bank. In fact, Daiichi Bussan had received the biggest amount of loans from Fuji Bank, but in the process of the grand merger it gradually shifted its emphasis to Mitsui Bank, partly because of the loans Mitsui Bank had provided to those being merged. In other words, this was a merger with the leadership exercised by Mitsui Bank. What made these loan relations between Mitsui Bussan and Mitsui Bank decisive was the participation of Muromachi Bussan in the merger,[9] with Mitsui Bank firmly incorporating Mitsui Bussan among its own lendees. Fuji Bank, on the other hand, was compelled to seek its new trading companies from among its corporate clients. As Mitsui Bussan and Mitsubishi were taken into the financing groupings of the respective banks, they also were brought into the respective groups of firms, thereby completing the formation of enterprise groups as the finishing touch to the grand mergers.

Differences in the business performance of different offsprings became increasingly marked in the boom and the crash brought about by the war in Korea, but the question is what factors caused these differences. There are such obvious factors as the quality of manpower and the coincidence and non-coincidence of goods handled with the needs of the boom period, but of greater importance was the recognition of superiority of general trading companies over trading firms dealing in specific product lines. It follows, therefore, that ensuing grand mergers were promoted on the explicit understanding that generalization of trading firms would proceed. The Korean War boom and its aftermath drove home the superiority of general trading companies.

Grand mergers served to strengthen *esprit de corps* within each enterprise group. By 1952 the merger process had narrowed down to the issue of which companies were to serve as the new core, but the final stage came to assume far greater importance than simple mergers of small traders. It was not to be completed merely by their own accord. It had come to be viewed as a critical issue facing all of the enterprise groups, and not only the concern of the trading business. And in the final stage of merging the remaining few together to create the new Mitsui Bussan and Mitsubishi Shoji, not only the

main banks but also various leaders of the respective groups joined to effect the final arrangement.[10] This resulted in the simultaneous consolidation of the groups themselves as the completion of the mergers.

The rebirth of Mitsui Bussan and Mitsubishi Shoji as a result of grand mergers, then, did not only enlarge the range of products handled by the new giants, it also consolidated the position of the respective main banks. It strengthened *esprit de corps* within the corporate groups. The two trading companies themselves were placed at the core of the newly born groups of companies carrying out a great diversity of businesses. And all these phenomena, essentially completed by the end of the period under study in this section, constituted the basic conditions upon which the Japanese economy would grow at a high pace after 1955.

Let us now examine the process of business generalization by the Five Cotton Traders of the Kansai area, and more specifically that by Marubeni and C. Itoh. The process of business generalization for Mitsui Bussan and Mitsubishi Shoji went together with the grand mergers, and for the Five Cotton Traders of the Kansai area, the same process took place also in the context of mergers, although new divisions were added to the existing ones. When Mitsui Bussan and Mitsubishi Shoji had been dissolved, the five Kansai traders assumed important roles in Japan's foreign trade and domestic distribution, thus calling for the analysis of the development of these five companies in the light of changes in the trade patterns and industrial structure of the Japanese economy. The way that the Japanese economy developed and the pattern of foreign trade and changes in industrial structure had a substantial impact on the fate of these trading companies.

It is the ordinary practice to analyse the business volume of trading companies first by classifying the total volume of merchandise handled into the four categories of exports, imports, domestic trade, and third-country trade, and then by analysis of the product lines. In the case of the five Kansai cotton traders, the merchandise can ultimately be classified into the two categories of textiles and non-textiles. Third-country trade having a very small portion, we can go on with this simple classification, involving export, import, and domestic trading. On the export front, textiles occupied about half of the total, while textile raw materials, foodstuffs, and metal raw materials were important import items. In view of the heavy investment in plants and equipment in iron and steel and electricity, the five Kansai cotton traders in the period 1950–1954 created a foundation for development with a skewed emphasis on textiles, and when they wanted to diversify into non-textile sectors, they inevitably went in the direction of the import of foodstuffs, especially soya beans, and rubber and metal raw materials.

Table 4 shows that the proportion of textile products and foodstuffs was small in the total domestic shipment in Japan at that time, with a rather heavy weight attached to the iron and steel and chemical industries. When exports are deleted from such a pattern of domestic industrial production, the weight of heavy and chemical industries increases further. This means there was a large share of heavy industrial and chemical products going through the

Table 4. Industrial shipments in key sectors (in ¥ billion)

	1950		1955		1960		1964	
	Volume	%	Volume	%	Volume	%	Volume	%
Foodstuffs	318.8	(13.4)	1,215.0	(17.9)	1,926.6	(12.4)	3,341.1	(12.1)
Textiles	509.5	(21.5)	1,096.1	(16.2)	1,741.5	(11.2)	2,518.0	(9.1)
Pulp, paper & paper products	83.2	(2.7)	284.9	(4.2)	600.7	(3.9)	1,080.8	(3.9)
Chemicals	306.2	(12.9)	744.0	(11.0)	1,463.6	(9.4)	2,562.8	(9.3)
Petro- & coal-products	32.8	(1.4)	130.3	(1.9)	371.6	(2.4)	675.3	(2.4)
Ceramics, clays-sands-stones products	78.6	(3.3)	231.9	(3.4)	537.5	(3.5)	992.6	(3.6)
Iron & steel	309.0*	(13.0)	651.0	(9.6)	1,651.7	(10.6)	2,649.5	(9.6)
Non-ferrous metals			282.8	(4.2)	670.4	(4.3)	1,061.5	(3.8)
Metal products	70.2	(3.0)	219.7	(3.2)	610.2	(3.9)	1,287.3	(4.1)
Machinery	114.1	(4.8)	311.5	(4.6)	1,214.3	(7.8)	2,259.6	(8.2)
Electric machinery & equipment	74.6	(3.1)	251.0	(3.7)	1,294.2	(8.3)	2,338.2	(8.4)
Transportation machinery & equipment	122.2	(5.2)	370.5	(5.5)	1,329.3	(8.5)	2,547.1	(9.2)
Total	2,372.4	(100.0)	6,772.0	(100.0)	15,578.6	(100.0)	27,682.8	(100.0)

Sources: Kokuritsu Kokkai Toshokan Chosa Rippo Kosa Kyoku (National Diet Library, Research and Legislative Reference Department), *Sengo Nihon ni okeru keizai kōzō no hembō—Tōkei shiryō no bunseki o chūshin ni* (Changes in the economic structure in post-war Japan—On the basis of statistical data) (Tokyo, Kokuritsu Kokkai Toshokan, Chosashiryo 67-4, 1968), p. 40-II, drawing on MITI, *Kōgyō tōkei hyō* (Industrial statistical tables) (Tokyo, Printing Bureau, Ministry of Finance, 1951, 1956, 1961, and 1966).

*This is the sum of iron & steel and non-ferrous metals.

domestic distribution network, as distinguished from the foreign trade pattern, and it proved to fetter the growth of these five cotton traders. This obstacle turned out to be quite substantial when the economy's high growth began after 1955, with heavy and chemical industrialization at its core.

Let us examine specific companies in terms of the merchandise they handled. Nichimen and Tomen had a high proportion of foreign trade. As previously described, the textile industries of Japan were highly dependent on imported raw materials and exported finished products, thus these two trading companies seem more like textile traders than general traders. C. Itoh, however, despite an admittedly high proportion of textile products in its transactions, had a heavier share of domestic trade, with relative emphasis on the domestic distribution. Marubeni had a higher share of non-textile products in comparison with the others and was one step ahead in diversifying its product range by de-textilizing. One glimpses here a cause for the growing disparities in the performance of these five companies that would surface more distinctly in the early 1950s.

Although these five cotton traders ranked high in their business volumes after the dissolution of Mitsui Bussan and Mitsubishi Shoji and though they were trying to catch up with these two giants in generalizing their businesses, they were never able to replace their two senior rivals.[11] This was because they were lagging far behind in their diversification efforts and in their efforts to systematize domestic distribution. It was also due to the difference in the ways in which they were integrated into the firm groups. Let us examine these causes one by one.

In this period Nichimen was in the leading position in the import of raw cotton, and it was also a leader in importing foodstuffs and exporting textile products. Nichimen also wanted to diversify its range of products, because "post-war Japan's spinning capacity is only one-third of that before the war. It also exports only one-half of what it used to export before the war. For the entire country and for ourselves as well the textile industry cannot be relied upon so heavily as before. Nor is it desirable for the export-based economy. For these reasons we embarked on the expansion of the merchandise handled in the export/import business."[12] Confronted with both absolute and relative decline of textile goods, Nichimen started to handle other goods, naturally including oils, rubber, and leather, often referred to as the "three new products."

C. Itoh had been trying to diversify its product lines to include foodstuffs by capitalizing on its participation in the operation of the wartime trading authority (Boeki Eidan), but it suffered a big loss in its diversifying effort when prices collapsed at the end of the Korean War, as can be seen in the case of the so-called three new products. Furthermore, this was immediately after huge profits were earned by the five cotton traders thanks to the sharply rising exports and special procurement resulting from the Korean War, especially because they concentrated their efforts on cotton fabrics, artificial fibres, and ships (all five companies suffered heavy losses when the three new products suffered large price drops).[13] Diversification of foreign trade mer-

chandise had already become a stumbling block in 1951. This experience made these five cotton traders very cautious in diversification, not only delaying their ultimate diversification but also causing them to give up their leading positions among Japan's traders in favour of Mitsui Bussan and Mitsubishi Shoji, which were still undergoing the process of merging.

While the boom induced by the Korean War quickened the pace of grand merger for Mitsui and Mitsubishi, it promoted a restructuring of the five-cotton-trader constellation, with banks playing the leading role in the process. This same restructuring process served to further widen the gaps among the five companies, resulting in decisive differences in the ways in which they became affiliated with enterprise groups. This was because bank-led restructuring invariably meant traders joining the line of companies which were all loan-seeking clients of the bank. Diversification on the part of trading companies can be achieved only through mergers or development of new merchandise to handle, but the first method was extremely important in the context of the 1950s, when instability in the very foundation of these trading companies, as well as in the Japanese economy generally, was the order of the day. When this coincided with an attempt to build a basis for the company's further development, it could easily produce unexpected gaps among comparable trading companies.

Nichimen merged with Maruei Kabushiki Kaisha on the basis of a 5:1 ratio in its favour on 1 May 1954, under the guidance of Sanwa Bank. Maruei was a textile trader, one of the Senba eight in Osaka.[14] Nichimen also absorbed another of the Senba eight, Tatsuki Kabushiki Kaisha, on 31 March 1960. Nichimen thus ended up absorbing two of the Senba eight textile traders under the leadership of Sanwa Bank, but this only served as a detrimental factor in its efforts to diversify into non-textile areas.[15]

Tomen merged with Kanegafuchi Shoji in August 1955 on the one hand, but effected capital participation in a spinning firm to integrate it into its firm group on the other, while diversifying its businesses. In the mean time, Fuji Bank suggested a merger with Takashimaya Iida, which proved abortive due to interference by Mitsui Bussan among others. This not only delayed its diversification, but also generally slowed its pace of subsequent development. This can be attested to by the fact that Marubeni has achieved its present status by merging with Takashimaya Iida under the leadership of Fuji Bank, so that it was able to truly generalize. Tomen was not fully independent of Mitsui Bussan in the early 1950s, and it leaned heavily on handling textiles, only to the detriment of its efforts to diversify. Tomen was launched on its path to generalization only after 1960, when it absorbed Taiyo Bussan (April 1961) and Nankai Kogyo (October 1963) to consolidate its foodstuffs and iron and steel sections.[16]

C. Itoh and Marubeni for their parts chose to diversify through mergers from the outset. In October 1953 C. Itoh advanced into the paper and pulp sector by acquiring the goodwill of San'ei Shigyo, and on 1 April 1955 it merged with Taiyo Bussan to lay the foundation for trade with China and

secure manpower for non-textile businesses.[17] A little later, on 15 November 1960, it merged with Morioka Kogyo to secure its route to penetrating the iron and steel sector. Similarly, Marubeni tried to diversify into non-textile areas by starting deficit compensatory linkage export *vis-à- vis* Hitachi Seisakusho to approach the Fuyo group. This export practice, started in the latter half of 1953, encouraged export by having ships and trains among others exported by a company which was subsequently authorized to import sugar to recover the losses incurred in the above-mentioned export. Marubeni, "in January 1954 was entrusted to act on behalf of Hitachi Seisakusho in administering the contract Hitachi concluded with the Government of India to sell 50 locomotives and freight cars."[18] Based on the merit of this association, Marubeni signed a merger contract to merge with Takashimaya Iida under the guidance of Fuji Bank, through which Marubeni not only secured high-quality manpower but also acquired an assured place in the iron and steel, machinery, and wool sectors.

The important position of the textile industry in the Japanese economy provided the Five Cotton Traders of the Kansai area with their field of activity, but the Korean War boom and its aftermath had a differentiating effect on the growth of these traders. When in the 1950s various enterprise groups were formed, they were integrated into respective groups: Marubeni into the Fuji Bank group; C. Itoh into the Daiichi Bank group (without totally breaking away from the Sumitomo group); Tomen into the Tokai Bank group; and Nichimen into the Sanwa Bank group. The last two traders were not placed in the position of leading trading firm within their respective groups, which in turn were not among the top six enterprise groups. We might mention in passing that the five traders had the following monthly sales volumes (figures are in yen) at the time of reconstruction following the aftermath of the Korean War boom: C. Itoh, 8.5 billion (inclusive of internal sales); Marubeni and Tomen, around 7 billion; Nichimen, around 5 billion; and Gosho, 4 billion.[19] It is not difficult to observe some incipient signs of later differences in performance among these five. Furthermore, Tomen and Nichimen merged with textile traders in the early 1950s, little helping them in their drive toward diversification, while C. Itoh and Marubeni were able to diversify through mergers. When Marubeni came under the embrace of Fuji Bank at the same time, it was as if it killed two birds with one stone. At any rate, it was with these developments that the five cotton traders, or more precisely, C. Itoh and Marubeni, attained the two necessary conditions in the 1950s to become genuine general trading companies: joining one of the formative enterprise groups and building a strong foundation for diversification.

Let us look at the cases of Nissho and Iwai Sangyo, which had all the appearance of specialty trading firms dealing in iron and steel in the Kansai area. If integration in an enterprise makes a firm a general trading company, then these two trading companies should be designated as such as of 15 May 1968, when Nissho merged with Iwai Sangyo to become Nissho-Iwai under the guidance of Sanwa Bank, because the new-born company attained the

position of the leading trading firm within the Sanwa Bank group (before the merger, Nissho had both Daiichi Bank and Sanwa Bank as main banks, while Iwai Sangyo had Sanwa Bank as its main bank).

In the 1950s Nissho had a deepening relationship with Daiichi Bank, but after 1960, it changed its position *vis-à-vis* Daiichi Bank and joined Sanwa Bank's client group. This kind of shift in the main bank is not always advantageous to a trading company, although it happened to C. Itoh at one time. In fact, it could prove quite harmful for a trading company's development. The choice of main bank, that is, the choice of the enterprise to which a trading company wishes to belong, was a critical issue in the high growth period of 1955–1964. In the case of Nissho-Iwai, in addition to the choice of main bank, also instrumental in its establishment was the formation of Shin Nihon Seitetsu (New Japan Steel Corporation) by means of the merger of Yahata Seitetsu and Fuji Seitetsu. With Iwai Sangyo having strong ties with Yahata Seitetsu and Nissho with Fuji Seitetsu, the merger of the two trading companies in a way was a response on the distribution front to the merger of the two big steel producers.[20]

Textile products played the central role in the trade structure of the early 1950s in Japan, limiting the range of activities for trading companies with iron and steel and machinery as their main product lines. This is borne out in examining the actual performance of this category of trading companies. Nissho and Iwai Sangyo had lower sales volumes than the five cotton traders in the period starting with the Korean War and ending in 1955. Even for Nissho, with a considerable degree of diversification into textiles besides the traditional lines of iron and steel and machinery, its sales volumes amounted to only one-third or one-fourth of that of C. Itoh. We note in this connection that Nissho's aggregate business had the following composition in 1954: export, 14 per cent; import, 37 per cent; and domestic trading, 49 per cent. In terms of product lines, metals had a 46 per cent share; machinery, 7 per cent; textiles, 26 per cent; other materials (such as pulp, lumber, chemicals, soda, fuels, and sundry goods), 8 per cent; and foodstuffs, 13 per cent.[21] Nissho, with such a heavy concentration of business on metals, merged with Hakuyo Boeki on 15 June 1956. This was a firm strong in foodstuffs and textiles, and it used to belong to the Mitsui group. For Nissho this was an important stepping-stone for future diversification.[22] Since this merger took place under the leadership of Daiichi Bank, we may surmise that Nissho at this time was close to Daiichi Bank and its client firms.

Iwai Sangyo was a specialty trader of iron and steel with a long history: it used to serve as the designated wholesaler for the old Yahata Seitetsu and Nihon Seitetsu, and after Nihon Seitetsu was dissolved in the post-war reform, it handled the products of Nihon Seitetsu. This was in clear contrast to Nissho, which handled the products of Fuji Seitetsu. When the Korean War broke out, Iwai Sangyo increasingly dealt in textile raw materials and other materials, with a corresponding rise in the share of exports, but no appreciable improvement took place in the business performance of Iwai Sangyo until about 1960.[23] Iron and steel was traded mainly in Japan, and Nissho

tried to increase imports of textile raw materials, but that diversification effort did not produce the expected results in the context of the aftermath of the Korean War boom. As has been described already, Nissho, along its path of diversification, finally merged with Iwai Sangyo and joined the Sanwa Bank client companies, but from another angle, it can be viewed as the only alternative left to Nissho if it wanted to build a non-Sumitomo group with its base in Osaka.[24]

Let us briefly review the development of Sumitomo Shoji. Preparations for establishing the post-war Sumitomo Shoji were already under way when on 7 November 1945 the dissolution of Sumitomo Honsha was announced, and it was born when Sumitomo Tochi Komu Kaisha changed its name to Nihon Kensetsu Sangyo Kabushiki Kaisha at its 52nd regular stockholders' meeting on 26 November 1945 in order to enter trading. In the then somewhat hostile environment to the creation of a trading company stemming from the traditional policy of "not entering trading," the decisive attitude of its general chairman, Shun'nosuke Furuta, was an important factor for this decision. There were a number of reasons for Sumitomo to enter trading. There was the perception that the Japanese economy was going through a big change from military and procurement demands faring large to an emphasis on general consumer demands, and to serve the latter, trading companies would become indispensable. There would also be excess manpower created when Sumitomo Honsha was to be dissolved, which, however, would certainly be needed in the future, and in order to keep it intact, creation of a trading company was ideal.

In pre-war days Sumitomo traded with foreign countries through Mitsui Bussan and Mitsubishi Shoji and carried out domestic trade through its own affiliates or its headquarters. In the days when Sumitomo Shoji was still called Nihon Kensetsu Sangyo, it started its business by asking to be allowed to take over part of the business hitherto undertaken by its own affiliates, although the dissolution of Mitsui Bussan and Mitsubishi Shoji also served as a positive factor for this new entrant. Neither very strong in foreign trade nor doing much of it, as can be seen from the way it started its business, Nihon Kensetsu Sangyo initially was engaged mainly in domestic sales activities as the agent for other Sumitomo companies. This meant that it generally dealt in those lines of products that Sumitomo-group companies produced. For example, the breakdown of the 1949 sales is as follows: iron and steel, 41.5 per cent; non-ferrous metals, 18.2 per cent; electric wire and electric equipment, 13.1 per cent; machinery, 17.8 per cent; chemicals, 5.3 per cent; sundry goods, 4.0 per cent; and textiles, 0.1 per cent.[25] Thus, in terms of the composition of the merchandise handled, it could not be called a steel dealer, since considerable weight was attached to non-ferrous metals, machinery, and electric equipment, and this was a reflection of the composition of the Sumitomo group. Sumitomo Kensetsu Sangyo also relied heavily on Sumitomo Bank in securing funds: over 80 per cent up until 1949, and 76.8 per cent even as of March 1949. Subsequently it started to diversify its sources of funds, partly as a result of a request from Sumitomo Bank itself, until it

secured only 38 per cent of its total fund demand from Sumitomo Bank as of the end of March 1955, 28.25 per cent by the end of March 1965, and 16.8 per cent a decade later, at the end of March 1975.[26] This was part of the general trend of trading companies to diversify sources of funds: banks were increasingly restricted in making large-scale loans to a single company, while trading companies also tried to borrow funds not merely from financial institutions (banks, trust banks, non-life insurance companies, and insurance companies) belonging to the same enterprise group but also from other, external institutions, such as long-term credit banks (Industrial Bank of Japan, and Long-Term Credit Bank of Japan) and the Bank of Tokyo in particular.

Nihon Kensetsu Sangyo tried to accumulate more experience in foreign trade operations by taking part in the export/import business of the Boeki Cho (Foreign Trade Bureau, est. December 1945), while it invited personnel with pre-war experience in foreign trade from other Sumitomo group companies.[27] That foreign trade was under state control until 1949 was also advantageous for Nihon Kensetsu Sangyo in its effort to consolidate its foundation as a trader. Export liberalization in December 1949, import liberalization in the following month, and the freedom of traders to establish overseas branches on 25 August 1950, together, made it inevitable for trading companies to enter and/or strengthen export/import operations. Nihon Kensetsu was at this time put in charge of importing technologies and machinery for Sumitomo firms. When it suffered relatively minor set-backs in the aftermath of the Korean War boom (unlike the five textile traders of the Kansai area), its social prestige received a boost. It changed its name to Sumitomo Shoji Kabushiki Kaisha as of 1 June 1952, after the conclusion of the peace treaty with the United States. At this time, it made vigorous attempts to accelerate foreign trade of Sumitomo group companies (which had hitherto been rather inactive in approaching overseas markets); this period also coincided with the rapid improvement of the domestic sales network for iron and steel and non-ferrous metals. While in 1954 there was a rather healthy balance between domestic and foreign sales – 64 per cent for domestic sales and 36 per cent for foreign sales – imbalance in terms of the composition of merchandise handled was painfully apparent: out of the total sales of 43,180 million yen in 1954, iron and steel accounted for 42.0 per cent; non-ferrous metals, 17.7 per cent; electric wire/equipment, 7.4 per cent; machinery, 7.8 per cent; fertilizer/foodstuffs, 15.5 per cent; chemicals, 4.4 per cent; textiles, 4.9 per cent; and other materials, 0.3 per cent. Later, fertilizer/foodstuffs raised its share, while there was a marked fall in the relative shares of electric wire/equipment and machinery. The share of metals in the total sales nearly reached the 60 per-cent level.[28]

Let us now review the process by which trading companies became genuine general trading companies in the decade following the end of World War II. If the necessary conditions for being a general trading company are integration with an enterprise group – revolving around a loan-making bank and with such benefits as mutual transactions and information exchange within the group – the handling of a diverse range of merchandise, a balance be-

tween domestic and foreign trade, and overseas expansion by opening branch offices abroad, then to what extent have the trading companies described above really become general trading companies? In terms of integration with an enterprise group, the first instance of fully growing to become a general trading company was Mitsubishi Shoji. It met this first condition when it decided on its bank. In view of its far bigger business volume in particular (except for Sumitomo Shoji), it can be looked upon as constituting a prototype of the six giant trading companies that followed. In terms of merchandise diversification, Mitsubishi Shoji and Daiichi Bussan achieved it to the highest extent, followed by Nissho. The Five Cotton Traders of Kansai came next, but they persistently dealt in textiles to an overwhelming extent (while Iwai Sangyo maintained a high share of iron and steel in its business). These five cotton traders had aimed at attaining the company profile of Mitsui Bussan and Mitsubishi Shoji in 1945–1954 by pursuing merchandise diversification, and yet they failed to rid themselves of their pre-war features. In short, the extent of their merchandise diversification was not sufficient to warrant applying to them the term general trading company. In the case of Sumitomo Shoji, it did have a slight leaning toward metals as a reflection of the group to which it belonged, which also meant that it needed access to non-Sumitomo firms to fully diversify the range of its merchandise. But during the period under consideration, the extent of its merchandise diversification was not sufficient. In terms of the weight attached to the export/import business, Mitsubishi Shoji and Daiichi Bussan ranked first and second by this period (see table 5).

On the issue of expansion abroad, we note that on 25 August 1950 the General Headquarters of the Occupation Forces authorized Japanese trading companies to open overseas branch offices. Many trading companies dispatched resident representatives or opened offices in order to secure a foothold abroad at the time of the Korean War boom. In 1952 some of the branch offices were incorporated in the United States in the context of the local legal framework, thus laying the foundation for the on-coming vigorous entrance into foreign markets by Japanese traders.

Looking back at the 1945–1954 period, we see that the dissolution of Mitsui Bussan and Mitsubishi Shoji represented one factor securing "free competition" for their lesser rivals. But in fact only one of them, Sumitomo Shoji, managed to enter the select group of genuine general trading companies. It is true that the pre-war Gulliver type of oligopolistic structure, with only Mitsui Bussan and Mitsubishi Shoji in the picture, changed considerably, thus allowing more competition. But the Five Cotton Traders of Kansai stagnated in the aftermath of the Korean War boom, while the grand mergers involving Mitsui Bussan and Mitsubishi Shoji placed them at the forefront of the evolving constellation of trading companies in Japan. The predominance of textiles among the goods traded did give some advantage to cotton traders of the Kansai area, but the mainstream of the recovering and growing Japanese economy became increasingly clear: the four key industries of coal, iron and steel, electric power, and shipping. This process of heavy and chem-

Table 5. Concentration of trade activities by major trading companies (1955) (in ¥ million)

Rank	Trading company	Export/ import volume	Share of individual companies (%)	Accumulated concentration (%)
1	Mitsubishi Shoji	148,132	9.2	9.2
2	Daiichi Bussan	94,919	5.9	15.1
3	Marubeni	85,342	5.3	20.4
4	Nichimen Jitsugyo	78,545	4.8	25.2
5	Itohchu Shoji	78,284	4.8	30.0
6	Toyo Menka	66,999	4.1	34.1
7	Kanematsu	50,149	3.1	37.2
8	Gosho	39,694	2.5	39.7
9	Nissho	31,980	2.0	41.7
10	Daiichi Tsusho	31,483	2.0	43.7
Others		908,002	56.3	100.0
Total		1,613,529		100.0

Source: Kosei Torihiki Iinkai Jimukyoku Keizaibu Chosaka, *Nihon sangyō shūchū no jittai* (Current situation of industrial concentration in Japan) (Tokyo, Toyo Keizai Shinposha, 1957), p. 265.

ical industrialization in post-war Japan definitely provided growing opportunities for Nissho and Sumitomo Shoji.[29]

We must not overlook the importance of the government's export promotion policy in the development of trading companies in post-war Japan. The Special Taxation Measures Act was revised in August 1953 to provide for the following: (1) a specified proportion of exports on a contract basis were allowed to be set aside tax-free as a special deposit for possible cancellation of export contracts, this arrangement to be valid for the following five years; (2) specified proportions of export revenues were tax-exempt on the part of the export dealers and manufacturers involved; and (3) special depreciations were allowed for the assets earmarked for overseas branches. This series of measures was "nothing but [measures intended for] improving the environment to strengthen the capital power of trading companies and promote their overseas activities."[30]

General Trading Companies, 1955–1964

Let us quickly review the state of the Japanese economy in the 1955–1964 period before we examine the activities of general trading companies during this time. To analyse general trading companies without identifying the salient features of the high growth of the economy in this period would obscure

the ways in which these trading companies adapted themselves to the evolving industrial structure. To be specific, we will address the following issues: (1) how trade liberalization proceeded; (2) what characterized the high growth period and what the leading industries were; (3) how enterprise groups were consolidated through entering the nuclear industry and exporting petrochemical plants; (4) what characterized business cycles and how they are related to the activities of trading companies; and (5) how trading companies behaved as exemplified by the iron and steel industry. Since many of the trading companies increasingly came to fulfil minimum conditions for being general trading companies in this period, we would like to highlight their common features rather than point out their differences.

Once trading companies were authorized to open overseas branches in August 1950, information about foreign markets became directly available. But foreign currency was still allotted to the manufacturer, thus preventing trading companies from making independent decisions to import goods. Since the open account was prevalent (by which accounts for export/import transactions were settled at the end of the year for all the transactions carried out within that year), they were hardly able to avoid barter trading. It is true that barter trading promoted merchandise diversification on the part of the traders, but at the same time, we must admit that this was not the normal practice in foreign trade. As trade was gradually liberalized after 1955, the domestic scene started to see an emergence of a new combination of goods being marketed and new forms of distribution, always with trading firms in the leading position.

On 10 September 1955 Japan formally joined the General Agreement on Tariffs and Trade, although the refusal by 14 countries (including Great Britain, France, the Netherlands, Australia, and India) to apply GATT provisions to Japan by resorting to Clause 35 left only 20 countries which accorded Japan proper GATT treatment. Another step was gained towards foreign trade liberalization when materials that required specifically allotted foreign exchange to be imported but were not susceptible to speculative importation were accorded automatic approval. Also in 1955 an important achievement came in the way of changes in the format according to which foreign reserves were allotted for imports. Until then, foreign currency had been allotted directly to the end user of the materials imported by the use of that foreign currency, but beginning in early 1955, as a rule, the importers were allotted this essential means of foreign trade unofficially or by applying for it with purchase order forms. This change served to increase dramatically the role of trading companies in foreign trade.[31] Furthermore, the open account system was abolished between 1955 and 1956, and, beginning in January 1956, trading companies were allowed to own foreign currencies for their own use.

Further steps were taken to liberalize foreign trade and foreign exchange. In March 1959 the Government's Conference of Economic Ministers declared the principle of free trade and free foreign exchange. In October of the same year, the fifteenth annual GATT conference demanded further steps for liberalization (because Japan was not yet as free as other industrial countries

in its foreign trade), and the Economic Planning Agency, in consultation with MITI, the Ministry of Agriculture and Forestry, and the Finance Ministry (among other concerned offices), announced on 24 June 1960 the General Outline of Plans to Liberalize Foreign Trade and Exchange as a formal decision of the Conference of Concerned Ministers to Promote Liberalization.[32] This outline stipulated that the liberalization ratio of 41 per cent as of April 1960 (the share of freely imported value in the total imports on customs clearance basis excepting the government's own imports, 1959=100 per cent) would be raised to 70 per cent by 1961. The final phase of Japan's trade liberalization arrived in February 1963 when the IMF governing body recommended the application of Clause 8 to Japan. In April of the following year, the Japanese government decided to move to the status of a Clause 8 country. At the same time, Japan decided to transfer its GATT status from that of a Clause 12 country to a Clause 11 country, and on 28 April 1964 Japan formally joined the OECD.

Such measures to liberalize Japan's foreign trade, while serving to increase traders' activities, also strengthened the solidarity of enterprise groups, and this was the way in which Japanese industries adapted themselves to the prospective arrival of foreign products into the Japanese market. There was a sense of urgency in pursuing this defensive measure. An additional factor of importance here is the emergence of big projects in such areas as nuclear development and petrochemical plants, which far exceeded the level that could possibly be managed by individual firms, either in investment requirements, in the variety of merchandise handled, or in the variety of businesses to be carried out. The close co-operation among firms belonging to a particular group was, in the face of such big projects, an inevitable result.

How should we characterize the high growth of the 1955–1964 period, which often is referred to as the first high growth period, in contrast to that in the ensuing decade? The 1955–1964 period of high growth was characterized by an extremely rapid growth of heavy and chemical industries, with the electric power, iron and steel, petrochemical, and machinery industries experiencing the fastest growth. Among the many factors that made this high growth possible, we will deal here mainly with the characteristics of the leading industries and how they were responsible for the growth, rather than making detailed comparisons of pre-war and post-war levels of production or dealing with the matter of economic policy.

A unique feature of Japan's post-war high growth period was the concurrent rapid growth of various industries that were at different stages of development, either in world historical perspective or within the context of Japan's own economic development. What bloomed simultaneously at this time were "the three categories of industries: (1) those which had been fairly well established before the war, chiefly capital goods industries such as shipbuilding and heavy electric machinery (roughly attaining the world standard), as well as iron and steel (still a second-rate industry); (2) those which had emerged before the war but had not quite established themselves, chiefly industries producing consumer durables such as automobiles and electric

home appliances; and (3) those which emerged for the first time after the war."[33] Globally, these categories took root during different time periods, in the early twentieth century, in the 1920s, and during World War II, respectively.

A common feature of the growth of these industries is the applicability of the economies of scale. Consequently, the large size of the minimum optimal scale of operation prevented all but a small number of big businesses with high investment capacity from entering these industries. Furthermore, pursuit of economies of scale called for an ever increasing supply of funds for investment to be secured. There was only a limited amount of free entry. Nippon Seitetsu was fragmented into Yahata Seitetsu and Fuji Seitetsu, among others, and Mitsubishi Jukogyo (Heavy Industries) was broken up into Higashinihon Jukogyo, Nakanihon Jukogyo, and Nishinihon Jukogyo, as were Oji Seishi, Dainihon Beer, and Hitachi Seisakusho – all on the basis of the Deconcentration of Excessive Economic Power Act. These divisions of the pre-war big businesses indeed seem to have contributed to the growth of their smaller rivals and thus to keener competition; since new entries required an enormous amount of funds, however, it was not possible to do so unless the support of city banks could be enlisted. The trend in the post-war era was one of a greater equality among firms, due to the growth and entry of new big businesses, making for competition among a number of big businesses. But in order to participate in this competition, one had to have the support of city banks, in other words, one had to belong to one of the enterprise groups.

We must say a word about the functions of city banks during the high growth period, because they were at the core of the various enterprise groups. Before the war, the relations among firms in the same group were characterized by a one-way domination by the holding company, but various enterprises were related to each other after the war on the basis of an equality among them and by a mutual holding of each other's stocks, resulting in a specifically Japanese version of management control. While pre-war industrial capital was based mainly on internal reserves and equity, that is, on its own capital,[34] post-war industrial capital was procured by bank loans to an overwhelming extent. In the immediate post-war period, the stock market had shrunk, and the bond market, with the function of a limited financial market, had also been made much smaller by artificially low interest rates.[35] Its place was taken by an increased printing of paper money, which was channelled through city banks after being issued by the Bank of Japan. The superiority of indirect financing was thereby established. But this form of capital raising resulted in the practice of overloaning on the part of city banks and overborrowing on the part of big enterprises. Moreover, although the lending by the Bank of Japan to city banks was allegedly based on the amount of deposit the latter had acquired, those city banks that served as a nucleus of enterprise groups tended to receive similar amounts of loans from the central bank regardless of the amounts of deposit, while the differences in the deposits (partially determining the growth limit of enterprise groups) were

offset by the loans out of such long-term credit banks as the Industrial Bank of Japan and the Long-Term Credit Bank of Japan.[36] There were additional government lending institutions (such as the Exim Bank of Japan, catering to foreign trade activities, and the Development Bank of Japan, helping with infrastructure-building in basic industries) which had specifically designated areas of activities in anticipation of the coming period of high growth.

We have seen that city banks served as the main instrument to provide industrial capital in the post-war period. Financial institutions were exempted from the Deconcentration of Excessive Economic Power Act, being left almost intact in the post-war economic scene, and they were the ones that supported the recovery from the credit side. The issue of how to secure a way of acquiring needed investment money thus became a very important point in those industries which sought to benefit from the economies of scale. That is partly why the pre-war *zaibatsu* were first re-grouped along financing lines with city banks at the centre. Enterprise groups so formed grew stronger and strengthened their mutual ties when they were faced with regrouped trading companies at the time of trade liberalization.

The one-set principle was also functioning: each enterprise group wanted to have a whole range of industries under its umbrella. Such investment behaviour resulted in an oligopoly, sometimes referred to as the Japanese form of excessive competition.[37] Various groups displayed their full power in entering the nuclear industry and construction of petrochemical plants. It was through these projects that trading companies began to play an additional function besides that of agency. Let us examine this aspect of development more closely.

Research and development in nuclear power began in 1954 in Japan, and the first nuclear power boom broke out after the mid–1960s, with a number of enterprise groups entering the industry in 1955–1956. The nuclear industry ultimately failed to provide these enterprise groups with a solid base for further development, but the attempt to enter this new industry was significant in nurturing the sense of solidarity within each group. Trading companies played important roles in this attempt (see figure 1). In October 1955 Mitsubishi Genshi Doryoku Iinkai (Atomic Power Commission) (MAP) was inaugurated as the first organization of its kind, embracing 21 Mitsubishi-group companies. This was followed by the Fuyo (Fuji) group's Tokyo Genshiryoku Sangyo Kondankai (Atomic Industry Conference) (TAIC) in March 1956, made up of 16 Fuji-group companies. The Sumitomo group's Sumitomo Genshiryoku Iinkai (Atomic Energy Commission) (SAEC) was established in April of the same year, followed by the Mitsui group's Nihon Genshiryoku Jigyokai (Atomic Industry Group) (NAIG) in June of that year, and by the Daiichi Bank group's Daiichi Genshiryoku Sangyo Group (First Atomic Power Industry) (FAPIG) in August of that year.

Each of these five groups of enterprises had a heavy electric appliance manufacturer at its core, and each had a trading company participating to act as the secretariat: Mitsubishi Shoji was in the Mitsubishi group, Marubeni Iida in the Fuyo (Fuji) group, Sumitomo Shoji in the Sumitomo group,

Figure 1. Enterprise groups in nuclear industry (* serving as secretariat)

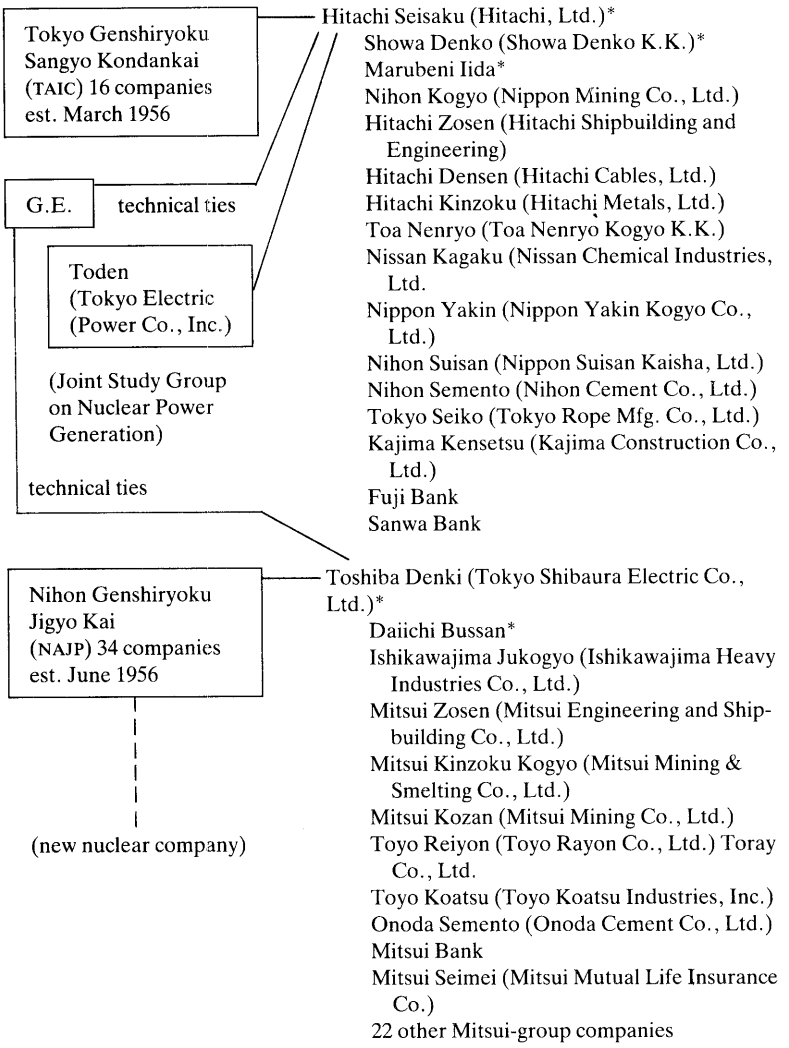
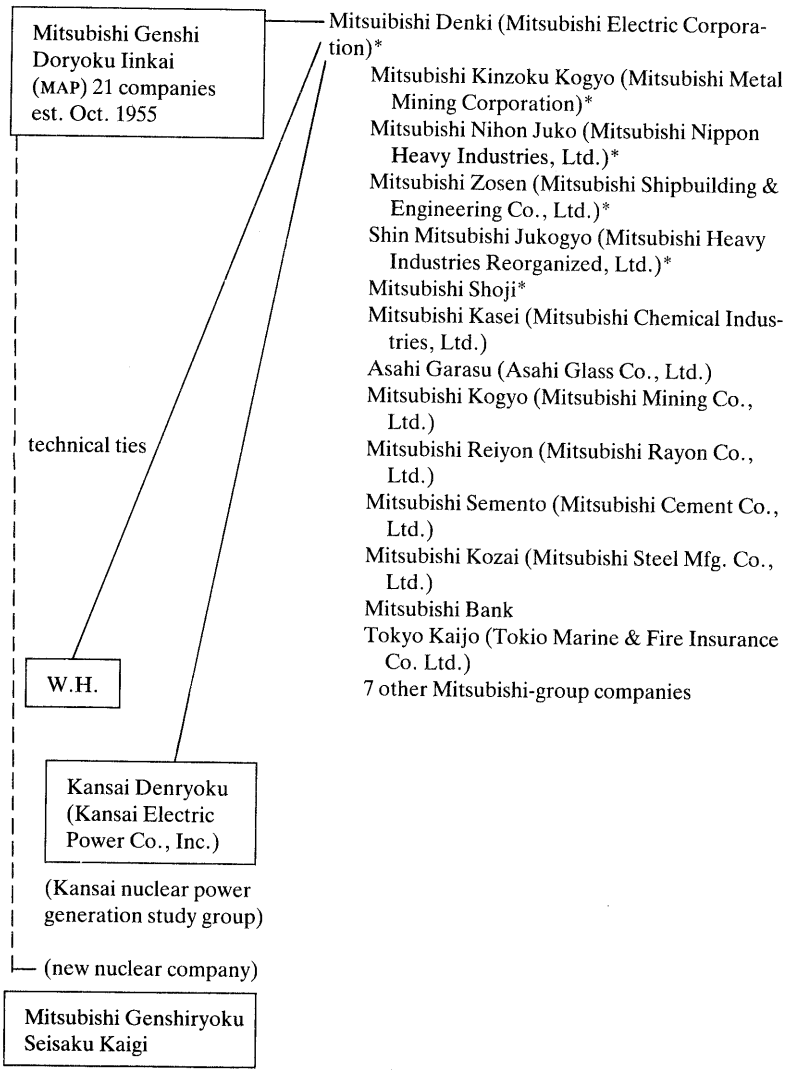
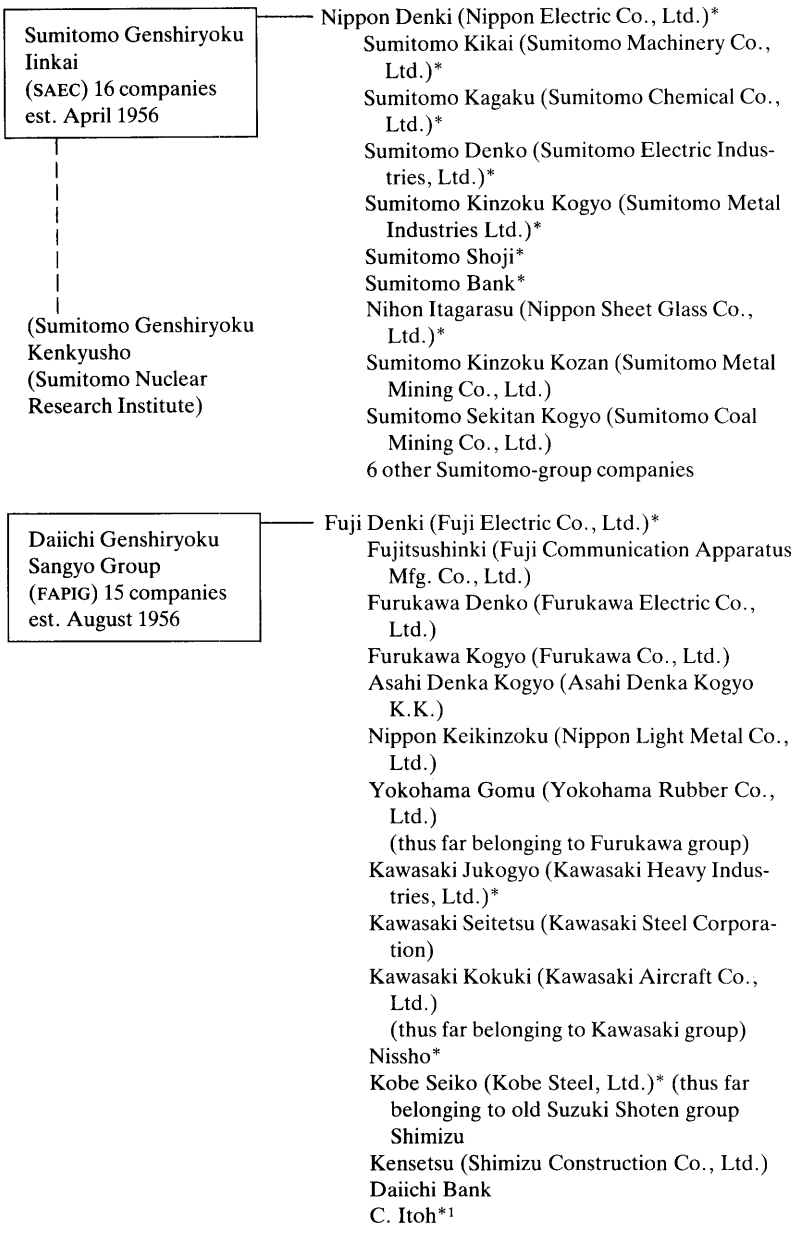


Fig. 1. (continued)





Sources: Kobayashi Yoshio, ed., *Kigyō-keiretsu no jittai* (True state of enterprise groups) (Tokyo, Toyo Keizai Shinposha, 1958), p. 174. Itochu Shoji Kabushiki Kaisha Shashi Henshushitsu, ed., *Itochū Shōji 100-nen* (A 100-year history of C. Itoh & Co.) (Tokyo, Itochu Shoji Kabushiki Kaisha, 1969), pp. 231–232.

[1] It was officially decided that C. Itoh join FAPIG on 5 October 1959.

Daiichi Bussan in the Mitsui group, and Nissho in the Daiichi Bank group. Particular mention must be made of the decision for C. Itoh to formally join FAPIG on 5 October 1959, with the result that FAPIG now had two trading companies in its orbit, Nissho and C. Itoh. Each group tried to introduce foreign technologies through technical co-operation with specific companies, like Mitsubishi Denki with Westinghouse and Toshiba with General Electric, while the long-term objective remained the attainment of indigenous technology. Thus, for instance, the number 1 reactor would be installed by a foreign company, in the process of which know-how would be transferred, so that the second reactor could be installed by Japanese companies. Trading companies not only acted as agents for their groups in importing nuclear equipment; "there was hardly any case of technology transfer without some involvement of a trading company. These trading companies played full roles, from carrying out difficult negotiations on the conditions of technology transfer to conclusion of agreements and to importation and installation of the state-of-the-art equipment."[38] The issue of the division of labour between trading companies and manufacturing companies in the transfer of technology had been raised at the onset of the high growth period, and this had taught the trading companies many lessons, very useful in the coming years.

Let us examine the role of trading companies in the petrochemical industries. These industries started to develop in Japan in July 1949 when GHQ authorized the reopening of oil refineries along the Pacific coast and when, in January 1950, they began production all at the same time. In accordance with GHQ policy, applications were submitted to obtain authorization to sell the pre-war military fuel depots to private hands: No. 1 Navy Fuel Depot at Ofuna, No. 2 Navy Fuel Depot at Yokkaichi, No. 3 Navy Fuel Depot at Tokuyama, and the Army Fuel Depot at Iwakuni. After some vacillation, the government arrived at the decision to sell the depots as follows:[39] Yokkaichi to Showa Sekiyu (Shell affiliate), Mitsubishi group; Tokuyama to Idemitsu Kosan, Sumitomo group; and Iwakuni to Koa Sekiyu (Caltex affiliate), Mitsui group, and Nihon Kogyo.

In 1955 Nihon Sekiyu Kagaku was established with the support of the firms in the Daiichi Bank and Fuji Bank groups. This constituted Phase One of the petrochemical planning. In this phase, all the enterprise groups except Sumitomo took part in the programme by establishing a separate company to spread the risks, and they all started with imported technology. Trading companies naturally played important roles in this transfer of technology. First, their opinions on the corporate strategy as to what product lines should be emphasized usually were adopted because of their long experience in marketing various petrochemical goods. In introducing foreign technologies, the information gathered by their overseas networks also served a critical purpose. For instance, Mitsubishi Yuka originally planned to make acetone its principal line of products, but reversed its decision to emphasize polyethylene based on the advice of Mitsubishi Shoji. This was because Mitsubishi Shoji had been studying the matter in its Petrochemical Section and

"had come to the conclusion that there would be no sense entering this industry unless one dealt in profit-generating polyethylene."[40]

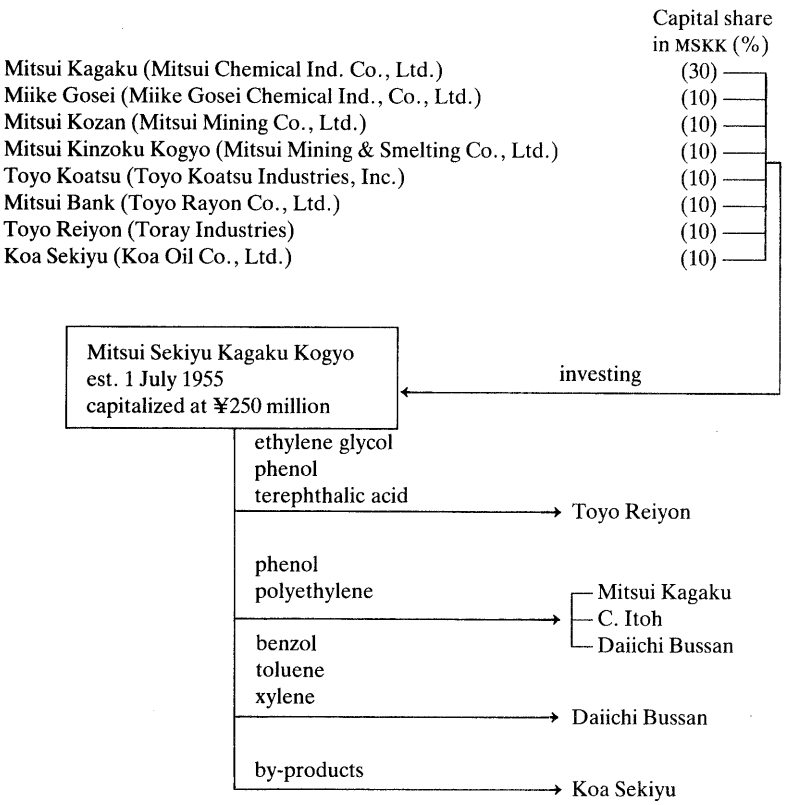
The success of Phase One prompted all those concerned to launch into the second expansion phase. Plants grew in size, covered the hitherto unutilized fractions in the refining process, and increased the range of products by applying newer technologies. While companies with foreign affiliation such as Mitsui Polychemical (Mitsui Sekiyu Kagaku and Du Pont) and Nitto Yunika (Nitto Kagaku and UCC) entered this now prospering industry, the existing chemical companies did not wish to be left behind, as typified by the case of the creation of Kasei Mizushima by Mitsubishi Kasei and Mitsubishi Yuka in order to avoid intra-group conflict. Thus, the mutually accumulating mechanism started to operate around 1960, beginning with increased demand for petrochemical products by existing firms, leading to expansion of the plants, to cost reduction through economies of scale, and then back to bigger demand. Furthermore, after the mid-1960s, with the prospects for greater trade liberalization looming large, the industry started to adjust the scale and the timing of investment within itself, resulting in a form of giving turns to a specific company for investment or joint investment. Also characteristic of investment in this period was the backward integration by chemical companies of former *zaibatsu* lineage and the forward integration of refiners.

How, then, was this development of Japan's petrochemical industry after the mid-1950s related to the activities of trading companies? In Phase One of the establishment of petrochemical companies in connection with the founding of the naphtha centre, Mitsubishi Shoji invested in and sold the products of Mitsubishi Yuka, and Daiichi Bussan and Sumitomo Shoji were put in charge of marketing the products of Mitsui Sekiyu Kagaku and Sumitomo Kagaku respectively (see figure 2). Marubeni Iida was one of the investors for Showa Yuka, which was established mainly by Showa Denko of the Fuji Bank group. The non-*zaibatsu* Nihon Sekiyu Kagaku, C. Itoh, Tomen, Marubeni, Asano Bussan, and Asahi Bussan all became its agencies.

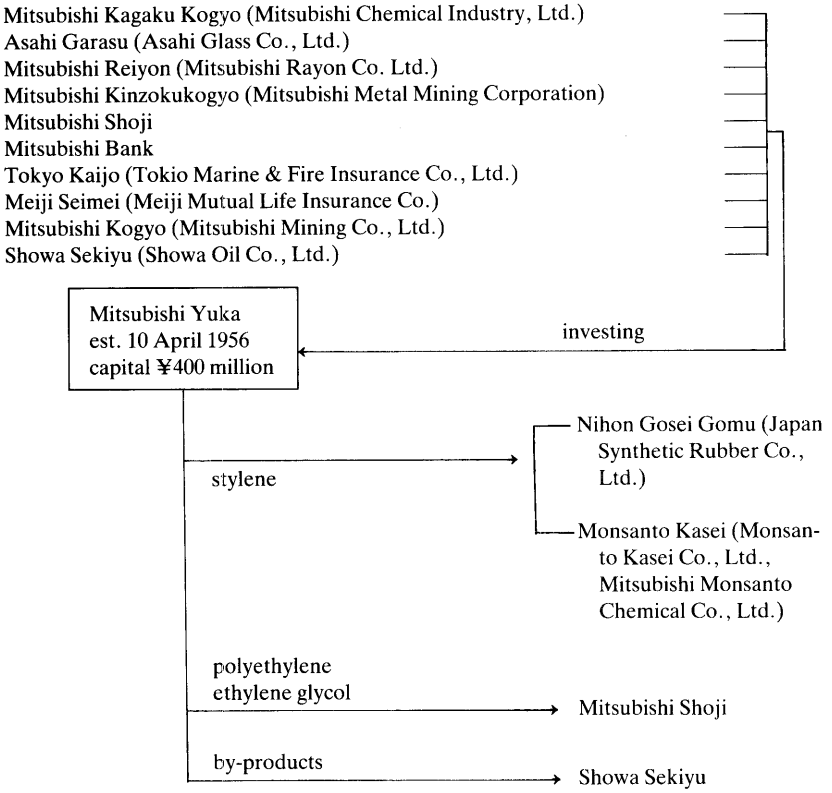
Trading companies also served as mediators, as typified in the following case of Mitsubishi Yuka. When application was made for the sale of the navy's fuel depot at Yokkaichi, Mitsubishi Sekiyu had a plan to construct a refinery with Shell Sekiyu. Then, "in order to give support to this plan, various Mitsubishi-group companies organized a Petroleum Committee. The principal figure in this committee was Mr. Kato Takeo, former president of Mitsubishi Bank and doyen of the Mitsubishi group, who entrusted the whole matter to Mr. Tanaka Kanzo, former chairman of Mitsubishi Shoji. Mr. Tanaka became the chairman of a group embracing such companies as Mitsubishi Jisho (Mitsubishi Estate), Asahi Garasu (Asahi Glass), Mitsubishi Rayon, Mitsubishi Kogyo (Mitsubishi Mining), Mitsubishi Kasei (Mitsubishi Chemical), and Mitsubishi Sekiyu (Mitsubishi Oil), as well as Tokai Ryuan (producing ammonium sulphate) as companies on the site."[41] It was the trading company which formed the centre and served as the mediator of all related activities.

Figure 2. Company affiliations in petrochemical businesses

Mitsui Sekiyu Kagaku Kogyo (Mitsui Petrochemical Industries, Ltd.) (ethylene, propylene, and aromatic groups, necessary funds ¥17 billion, completed in December 1957)



Mitsubishi Yuka (Mitsubishi Petrochemical Co., Ltd.)
(ethylene group products, necessary funds at ¥10,000 million, completion Feb. 1959)

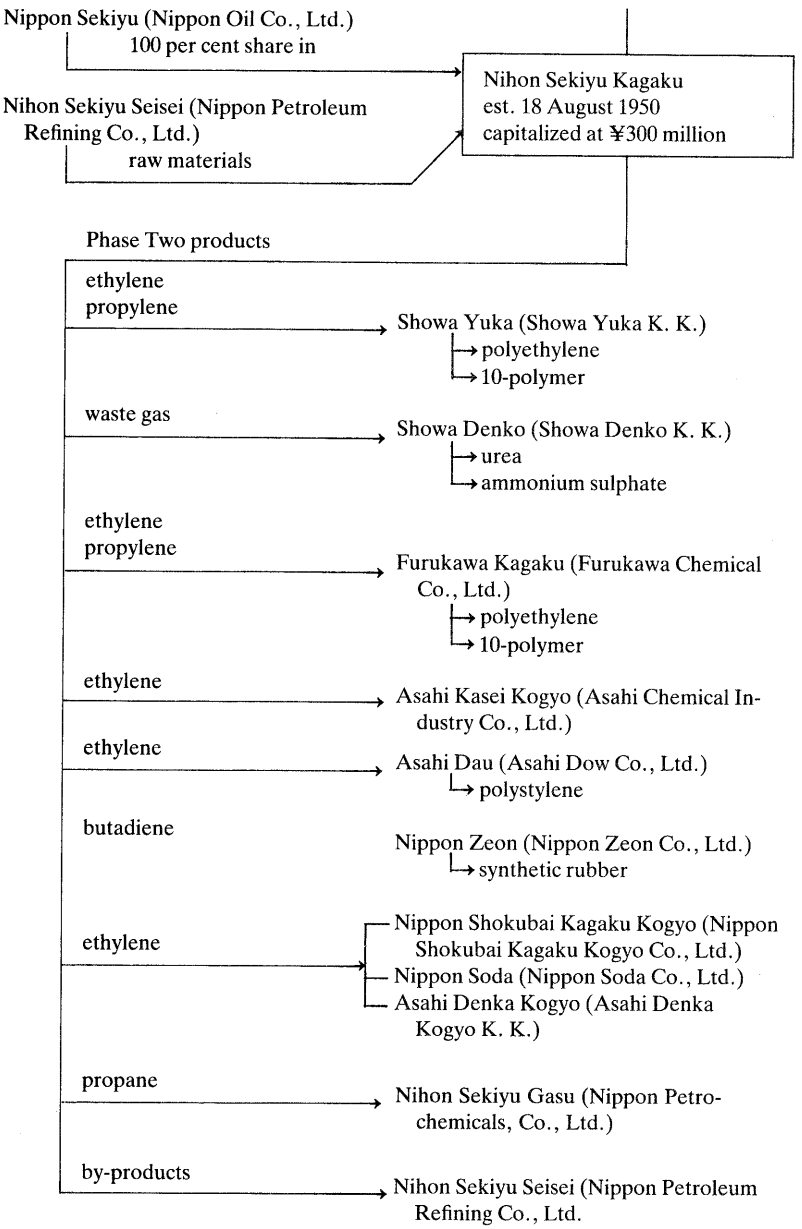


Nihon Sekiyu Kagaku (Nippon Petrochemicals Co., Ltd.)
(propylene group, ethylene group, necessary funds ¥7,900 million)
(Phase One completed in July 1957, Phase Two completion March 1959)

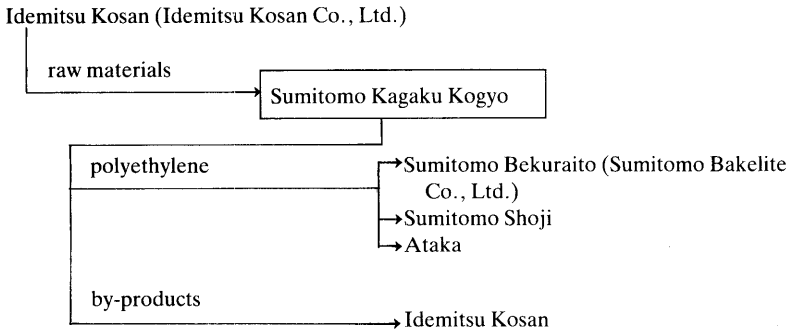
agencies:
C. Itoh
Toyo Menka
Marubeni
Asano Bussan
Asahi Bussan

Phase One products

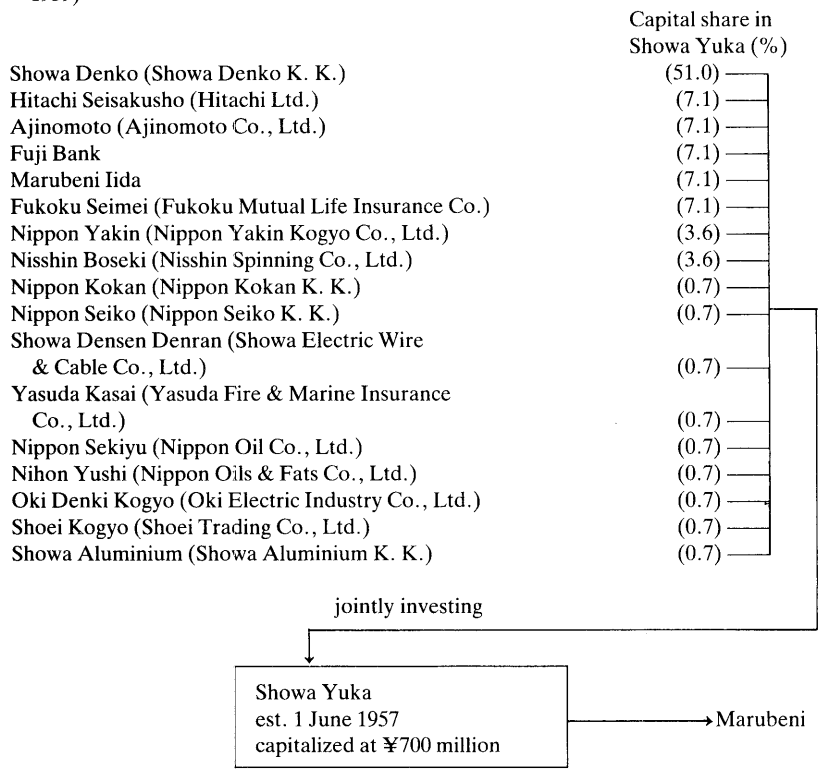
Fig. 2. (continued)



Sumitomo Kagaku Kogyo (Sumitomo Chemical Co., Ltd.)
(ethylene group products, necessary funds ¥4,800 million, completion in March 1958)

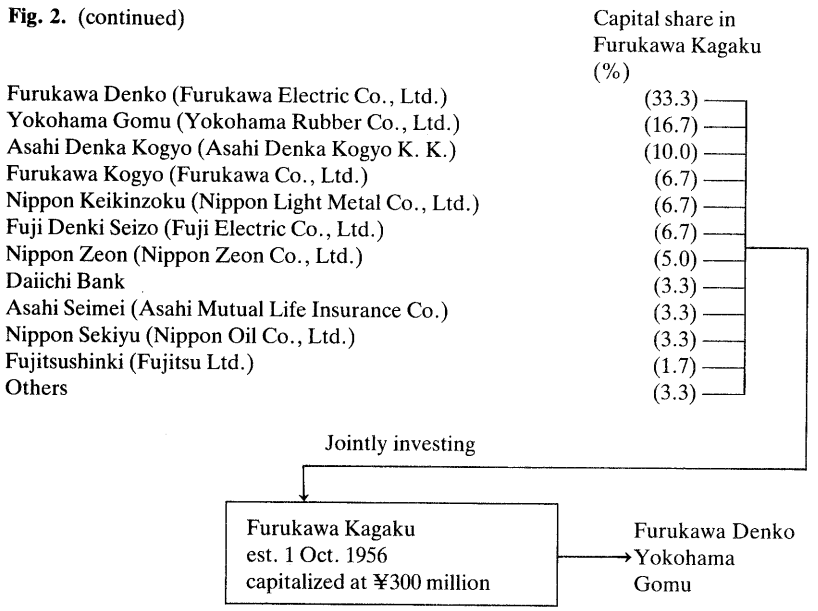


Showa Yuka (Showa Yuka K. K.)
(ethylene group products, necessary funds ¥5,500 million, due completion in April 1959)



Furukawa Kagaku (Furukawa Chemical Co., Ltd.)
(ethylene group products, necessary funds ¥4,500 million, due completion in April 1959)

Fig. 2. (continued)



Source: Aihara Shigeru, *Nihon no dokusenshihon—Sengo ni okeru sono kōzō to kinō* (Monopoly capital in Japan—Its structure and functions in post-war era) (Tokyo Hosei Daigaku Shuppankyoku, 1959), pp. 63, 65.

Showa Denko and Marubeni worked closely in the introduction of technologies as well as in product marketing. Anzai Masao, managing director of Showa Denko, while touring Europe in January 1955, came to know of the new technology of polyethylene developed by Phillips Petroleum Co. (US) and went over to the United States to make initial contact with this American company. At the special board meeting held on 5 April 1956, Anzai, then vice-president, was authorized to negotiate the matter, and on 18 April of the same year, the technical assistance agreement was signed with Phillips. The inordinately high speed of negotiations was surely due to his sense of urgency in view of the Mitsui group and Mitsubishi group plans to enter the petrochemical field, but it was also due to "a variety of cooperation and convenience provided by Marubeni Iida, which had close ties with Showa Denko and did indeed make great contributions in this matter."[42] On 1 June 1957, Showa Yuka was established, which introduced through Marubeni Iida high density polyethylene from Phillips and began to develop markets for it as well as to do research on the physical and other characteristics of this material and its method of processing. There were a number of strong approaches made by potential marketers of prospective products, but Showa Yuka "decided on marketing mainly through Marubeni Iida, which had early on launched activities to develop new markets."[43] Naturally, this trading company's earlier

ties with the petrochemical firm, in the days of the difficult negotiations with Phillips, was a factor in its favour. Subsequently, in March 1959, Showa Denko itself started to market polyethylene products, thus creating two channels of distribution. Here was a case of information provision leading to the acquisition of sole agency rights on the part of a trading company, which was also able to improve its own sales network for petrochemical products.

What is to be noted in this process of improvement of sales network for petrochemical products is the growth of intermediate demands in the petrochemical industry. As this industry grew, changes were created in the composition of the chemical products handled, from an emphasis on fertilizers and inorganic drugs (ammonium sulphate and soda) to rising shares of plastics, synthetic fibre, and synthetic rubber, among other commodities. Chem-

Table 6. Markets for chemical industries as of 1955 and 1961

	1955(A) (¥ million)	1961(B) (¥ million)	B/A × 100
Agricltr., forstr., fishry.	103,238	120,292	120
Coal	2,504	2,715	108
Other mining	2,481	3,494	140
Foodstuffs	36,173	46,823	129
Textiles	50,304	124,713	248
Chemicals	182,013	415,750	228
Iron & steel	4,881	15,515	318
Non-ferrous metals	2,867	11,380	393
General machinery	7,707	11,197	145
Electric machry. & applnces.	3,462	15,470	442
Transportation eqpmnt.	11,851	36,760	309
Clay-sand-stones	4,422	7,174	163
Other manufactrng. I	39,636	216,608	576
Other manufactrng. II	13,236	26,348	200
Construction	5,581	12,920	231
Civil engnrng & mntnance.	5,531	11,338	230
Electricity & gas	459	179	21
Commerce/trnsprtation.	7,250	793	16
Other services	65,971	125,673	199
Not classified	26,751	234,102	900
Quasi-non-compttv. imports	624	1,045	166
Intermediate demand	576,942	1,440,289	249
(household consumption)	(80,185)	(140,272)	175
(exports)	(30,675)	(82,303)	262
Final total demand	123,581	242,521	186

Source: Watanabe Tokuzo, *Sekiyu kagaku kōgyō* (Petrochemical industry) (Tokyo, Iwanami Shoten, 1966), p. 198.

ical fertilizers underwent a change in raw materials, and came to belong more to the petrochemical industry.[44] In addition to this broader range of products, there was a greatly increased intermediate demand in the same process. Table 6 gives a statistical description of the sizes and growth of intermediate and final demands from the raw materials stage to the end product stage, and it indicates the intermediate demand being six times as big as the end demand. Trading companies involved themselves precisely because of this big and growing intermediate demand, as well as the inevitability of their involvement due to the long chain of processes needed to reach the end product in this particular industry. Furthermore, this industry enjoys singular benefits of economies of scale, whipping all the manufacturers to ever increasing production volumes. This in turn not only made the supply of raw materials a critical issue but also necessitated secure sales outlets and exportation of part of the products, naturally making it essential for trading firms to come in and develop overseas markets.[45]

Those sectors which have particularly large intermediate demand are identified in table 7. The sectors with the highest share of intermediate demand were coal/oil/natural gas, metals/non-ferrous metals/mining, pig-iron/blister steel, basic chemical drugs, coal/oil products, agriculture/forestry/fishery, primary metal goods, and weaving, in that order. The sectors with highest absolute volume of intermediate demand were agriculture/forestry/fishery, primary metal goods, pig-iron/blister steel, transportation/communication, commerce, basic chemicals and drugs, coal/oil products, general machinery, and electric equipment, in that order. The metals, chemicals, agriculture/forestry/fishery, and machinery sectors had the highest intermediate demands except for transportation/communication, and these industries correspond very closely with those on which trading companies placed the greatest emphasis during the high growth period. Trading companies occupied an important position in the handling of intermediate goods, particularly from the import of raw materials to the handling of intermediate goods in the flow of goods from upstream to downstream. This portion from upstream to midstream not only had large volumes to be handled but made it possible for trading companies to systematize the distribution between enterprises involved. The result was a change in the nature of business relations from fixed, unidirectional transactions between manufacturers to more equal and two-way transactions between trading companies and manufacturers, with the former handling both the input and output of the latter. Smaller degrees of product differentiation among intermediate goods also made it easier for traders to handle them.

The task of general trading companies in systematizing the process of, and adjusting the demands in, raw materials importation, intermediate goods handling, and final products distribution does not confine their actions to the domestic scene. Particularly in view of the leading role played by private investment in plants and equipment in sustaining the high growth in the 1955–1964 period, trading companies tended to do more business in import and domestic distribution, but during cyclical troughs they were required to

Table 7. Demands in production sectors (in ¥100 million, %)

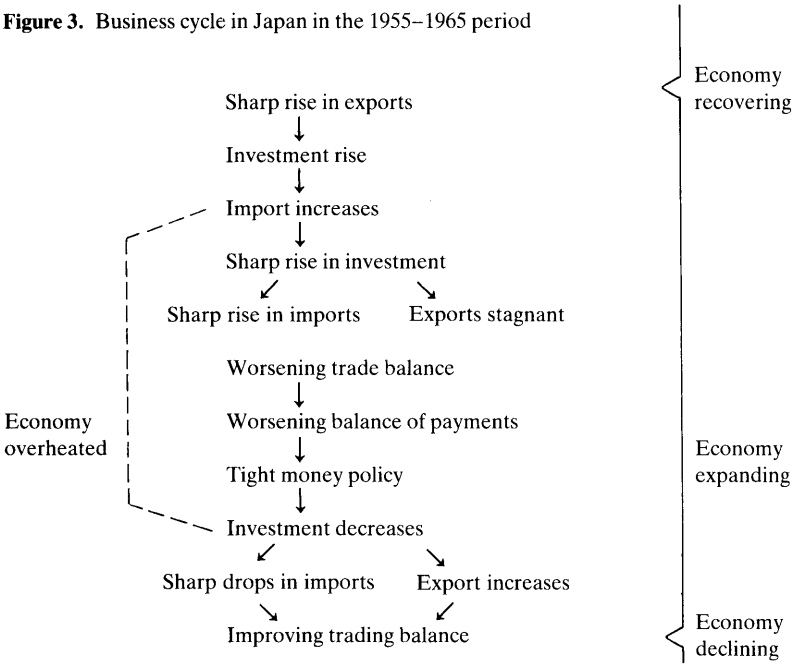
Production sector	Total intermediate demand	Total end demand	Imports/tariffs	Total production
Agriculture/forestry/fishery	32,604 (98.7)	7,822 (23.7)	−7,393 (22.4)	33,033 (100)
Coal/oil/natural gas	6,246 (255.0)	70 (2.9)	−3,866 (457.4)	2,450 (100)
Metals/non-metals/mining	4,473 (211.5)	94 (4.4)	−2,462 (115.9)	2,115 (100)
Grain refining/flour milling	1,824 (15.7)	10,032 (86.5)	−257 (−2.2)	11,600 (100)
Drinks/tobacco	327 (3.1)	10,311 (98.7)	−198 (−1.9)	10,440 (100)
Other foodstuffs	7,050 (31.4)	17,711 (78.8)	−2,283 (−10.2)	22,478 (100)
Weaving	5,911 (91.2)	593 (9.2)	−25 (0.4)	6,478 (100)
Fabrics/other accessories	6,601 (33.6)	13,202 (67.3)	−182 (−0.9)	19,622 (100)
Lumbering/wooden furniture	7,841 (81.6)	1,907 (19.9)	−140 (−1.5)	9,608 (100)
Paper/pulp	9,793 (100.2)	103 (1.0)	−294 (−3.2)	9,602 (100)
Printing/publishing	3,537 (72.7)	1,353 (27.8)	−22 (−0.5)	4,867 (100)
Coal/oil products	10,252 (99.3)	1,467 (14.2)	−1,397 (−13.5)	10,323 (100)
Chemical/drugs	12,234 (100.5)	1,036 (8.5)	−1,092 (−9.0)	12,183 (100)
Raw materials for synthetic fibres/others	9,030 (77.4)	3,365 (28.8)	−719 (−6.2)	11,676 (100)
Rubber/leather goods	3,161 (73.0)	1,237 (28.5)	−63 (−1.5)	4,336 (100)
Ceramics/sand/stone goods	6,601 (89.3)	861 (11.7)	−71 (−1.0)	7,389 (100)
Pig-iron/blister steel	18,310 (111.4)	−685 (4.2)	−1,180 (−7.2)	16,446 (100)
Primary metal goods	27,626 (92.4)	3,035 (10.2)	−790 (−2.6)	29,870 (100)
Metal products	6,561 (76.9)	2,073 (24.3)	−103 (−1.2)	8,533 (100)
General machinery	11,851 (46.3)	15,587 (60.9)	−1,847 (−7.2)	25,590 (100)
Electric equipment	10,887 (51.6)	10,918 (51.6)	−669 (−3.2)	21,137 (100)
Transportation equipment	6,594 (31.2)	14,952 (70.7)	−405 (−1.9)	21,140 (100)
Precision equipment	1,539 (46.8)	2,013 (61.1)	−261 (−7.9)	3,292 (100)
Other manufacturing	3,150 (53.7)	2,962 (50.6)	−251 (−4.3)	5,861 (100)
Construction/civil engineering	3,901 (8.4)	42,690 (91.6)	— (—)	46,591 (100)

Table 7. (continued)

Production sector	Total intermediate demand	Total end demand	Imports/tariffs	Total production
Electricity	5,285 (74.7)	1,795 (25.4)	−4 (−0.1)	7,077 (100)
Gas/water	946 (47.0)	1,069 (53.1)	−2 (−0.1)	2,013 (100)
Commerce	13,739 (40.5)	20,646 (60.8)	−440 (−1.3)	33,944 (100)
Financial/insurance/real estate	9,295 (43.6)	12,042 (56.4)	6 (0.0)	21,343 (100)
Transportation/communication	14,687 (56.6)	10,002 (38.5)	1,268 (4.9)	25,958 (100)
Public services	6,237 (15.1)	35,179 (85.1)	−89 (−0.2)	41,328 (100)
Not classified	14,808 (99.2)	762 (5.1)	−636 (−4.3)	14,934 (100)
Total	282,908 (56.2)	246,203 (49.0)	−25,855 (−5.2)	503,255 (100)

Source: Kokuritsu Kokkai Toshokan Chosa Rippo Kosa Kyoku, *Sengo Nihon ni okeru keizai kōzō no hembō*, p. 60.

Figure 3. Business cycle in Japan in the 1955–1965 period



Source: Oshima Kiyoshi, Enomoto Masatoshi, *Sengo Nihon no keizai katei* (Economic process of post-war Japan) (Tokyo, University of Tokyo Press, 1968), pp. 256–257.

play different roles. For instance, as seen in figure 3, the importance of imports rose during boom periods, while during recessionary periods, imports declined and exports grew. Conversely put, trading companies played the role of sustaining high growth by shifting their emphasis from imports to domestic transactions to export as the time demanded. First, they played the demand adjustment roles to mitigate the impact of business cycles; that is, during periods of economic strength, they imported machinery and equipment as well as raw materials and industrial goods and played major roles in domestic distribution, while during slump periods, they exported hitherto domestically marketed goods to markets abroad at low prices at a time when the domestic investment slackened and imports of raw materials declined. Second, their business was structured to deal in both the imports of such basic raw materials as energy and metals and the exports of mainly light industrial goods. As has been pointed out, it was imperative for them to maintain a balance between imports, domestic business, and exports, while all three had to grow, and this balance was ultimately attainable in global terms by engaging in third-country trading.

Lastly, let us briefly review the state of the iron and steel industry from the

end of World War II to the time of the birth of Shinnittetsu (Nippon Steel Corporation), so that we may examine the functions of trading companies in relation to the development process of this key industry. On 24 December 1946, the cabinet meeting decided to place especially heavy emphasis on whipping up the production of coal and iron and steel, and this was the beginning of the so-called *keisha seisan* (literally "skewed production"). The iron and steel industry began to revive itself by depending on the United States for the supply of raw materials and fuels. The Japanese government also assisted by giving price subsidies, raw materials import subsidies, and financing (through the Reconstruction Finance Bank of Japan, among other means). However, when in 1949 the Dodge line economic policy was put into effect, price subsidies and the Reconstruction Finance Bank loans were terminated, and the GHQ dispatched engineers to help rationalize production. This resulted in the first phase of rationalization in 1951–1955, following the Korean War, consisting of mainly investing in the rolling process. The emphasis was not on production increases but rather in improved quality and cost reductions. In this period other important events also took place: Nippon Seitetsu was split up to form Yahata Seitetsu, Fuji Seitetsu, and other firms; and the three companies of Kawasaki Seitetsu, Sumitomo Kinzoku Kogyo, and Kobe Seikosho all began production of iron and steel in 1953–1954 and presently became integrated steel manufacturers. Early starters from the prewar days (Yahata Seitetsu, Fuji Seitetsu, and Nihon Kokan) were thus joined by the three late starters, completing the six-member oligopoly structure of the industry. Those trading houses which had supplied the late starters with pig-iron now had also to provide them with such key raw materials as iron-ore.

The second phase of steel industry rationalization was effected between 1956 and 1960. LD converters were installed to expand the steel sector, and new integrated plants were also built, all to result in greater iron and steel production capacities. During the 1955–1964 period, the demand largely came from the domestic market, but in slack phases export was promoted by lowering prices. The six steel makers became more equal among themselves while expanding production capacities, and there was a simultaneous improvement and restructuring of the distribution system for their products. In 1958 the open marketing system called Kohansei was instituted through the good offices of MITI.[46] This had the purpose of preventing price collapses by disclosing transaction prices, and the leftovers were all purchased by trading companies to sustain the price. For instance, in 1958 Kinoshita Sansho, Irimaru Sangyo, Morioka Kogyo, Okaya Koki, and Osaka Kozai did this, and in 1960 Mitsui Bussan and Mitsubishi Shoji bought what could not find a market outlet within the framework of this system.[47] The constellation of trading companies also underwent changes as the iron and steel industry developed. For instance, Marubeni Iida absorbed Daiichi Kozai in February 1960; C. Itoh, Morioka Kogyo on 1 November 1960; and Mitsui Bussan, Kinoshita Sansho in April 1965. The supremacy of general trading companies thus became gradually felt in the iron and steel business also.

By the time the second phase of rationalization was over around 1960, the iron and steel industry in Japan had reached the international level. When it embarked on the third phase of rationalization in 1961, competition for market share was intensified as the production capacity increased drastically. It became increasingly competitive in the world market also, but at the same time, procurement of such essential raw materials as iron-ore and coking coal became critical for both steel makers and general trading companies. Keen oligopolistic competition pushed up the total share of the top six steel makers from 68 per cent in 1960–1961 to 74 per cent in 1966 in blister steel, further consolidating the oligopolistic structure of the market.[48] The 1965 recession saw a number of failures of big steel manufacturers such as Nihon Tokushuko and Sanyo Tokushuko, and the issue of capacity adjustment by MITI on the basis of blister steel share effected since 1959 was once again taken up. Late starters like Sumitomo Kinzoku and Kawasaki Seitetsu opposed such a capacity adjustment, claiming they would be put to a disadvantage. This came to be known as the Sumikin Incident, and set a definite limit to the cartelization-cum-investment adjustment under the guidance of MITI.[49] In its stead, plans were now advanced advocating mergers of steel producers, most specifically to merge Yahata Seitetsu and Fuji Seitetsu. In the midst of the turmoil, with the Fair Trade Commission recommending postponement of the merger and many economists campaigning against it, the merger did take place, creating Shin Nihon Seitetsu (New Japan Steel Corporation).[50] With it was born the price leadership system with a new giant at the helm.

What were the roles and functions trading companies played in such a development process of the Japanese iron and steel industry? The roles of trading companies in this industry are basically as follows: import of raw materials, introduction of technology, export of products, and dealings with domestic open-hearth electric furnace makers, rollers, and distributors in such a way as to form an effective system as a whole. And it is said that "there is no other industry in Japan that depends so much on trading firms as the iron and steel industry for acquiring imported materials and marketing the products abroad."[51]

Let us first examine the roles of trading companies in securing necessary raw materials from abroad. In order for trading companies to obtain greater shares in the sales of the products, they had to have the corresponding ability to supply raw materials to the steel manufacturers. The capacity to supply raw materials and to market finished products were mutually interdependent for trading companies. It follows, therefore, that only a small number of general trading companies capable of securing raw materials could become primary wholesalers of the steel makers. During the first phase of rationalization in the early 1950s, trading companies secured iron-ore and coking coal through spot purchases and similar straightforward operations. When the second phase of rationalization plans were pursued after 1955, the ability to secure stable supplies of raw materials became critical for Japan's steel makers, who had no captive mines like their counterparts in the West. This led the general trading companies to become deeply involved in the supply of

raw materials, playing a role comparable to the captive mines in the West. Spot purchases were replaced by long-term contracts, and the trading companies went beyond South-East Asia to Latin America and Australia in search of stable supply sources.[52] In the 1955–1964 period, the popular form of purchases of raw materials was either simply long-term agreements with major suppliers or equally long-term agreements with financing arrangements. Since in this period there were restrictions in the use of foreign reserves due to frequent international payment deficits, there were few cases of direct investment abroad or equity participation in firms abroad (for which one had to wait until after 1965).[53]

Trading companies co-operated in providing finances to foreign mines to secure long-term supplies of raw materials, but they did not stop there. They did what they do best, that is, they effected a complex combination of transactions. For instance, as the supply route became longer, the transportation cost became more than negligible. "Since the f.o.b. price of iron ore was relatively low, reduction in the ocean transportation cost proved decisive for viable transactions, prompting rationalization of ocean transportation by the use of uni-purpose freighters to carry ores only."[54] Such ore carriers were built by Mitsui Zosen when Mitsui Bussan was involved and by Chiyoda Koseki Unso (later Mitsubishi Koseki Unso) if Mitsubishi Shoji was involved. This drastically increased business involving ocean transportation. But it was not until 1965 that plant exports took root, which involved a number of divisions in carrying out a single project. Corresponding arrangements for stable supplies of raw materials thus evolved as iron and steel capacity increased.

In the latter half of the 1950s, steel exports played the role mainly of a buffer to offset the effects of recessions. When the third phase of rationalization began in 1961, however, rising steel exports started to assume a permanent nature. General trading companies now established joint ventures abroad, which then imported steel bars from Japan and processed them so that steel exports from Japan would be more stable. For instance, C. Itoh "in 1960 established Tensile Steel Ltd. in India in order to stabilize exports of steel wires, and Tensile was a joint venture to process steel wires together with Kobe Seikosho, Kobe Kosen Kosaku, and local capital."[55] In the same year, C. Itoh, together with Mitsui Bussan and others, "established the Sangkasi Thai Co., Ltd. to manufacture galvanized iron sheet metal, also a joint venture with Thai capital." Later it went to Singapore, Nigeria, and Nicaragua" to expand business as a source of stable demand for steel sheet metal."[56]

Mitsubishi Shoji adopted a similar line of action. While deepening ties with the United States, it also initiated projects in other areas: in 1964, it began building plants for galvanized sheet metal in Venezuela, Peru, and Guatemala; in 1968, it went into a joint venture with G.S. Steel (Thailand) for a bar steel electric furnace; and in 1970, it established a joint venture in Sudan (Sudanese Steel Products Co., Ltd.) to produce galvanized sheets and steel bars. These moves were due to the sharp rise in the production of blister steel

Table 8. Number of joint ventures abroad by Japanese iron- & steelmakers

	Asia	Africa	Latin America	Middle East	Industrialized countries	Total
Iron & steel integrated	1		1			2
Electric open-hearth furnace	1 + (1)				1	2 + (1)
Steel pipe	7				(1)	7 + (1)
Galvanized steel sheet	8 + (4)	6	5	1		20 + (4)
Tin plate	3					3
Plate & sheet	(1)				1	1 + (1)
Plate & sheet processing	2					2
Wire-rod processing	2					2
Wire rod & its processing	8		1		1	10
Rerolled steel	1 + (1)					1 + (1)
Raw materials development	6	1	1			8
Other	6 + (1)		2		4 + (2)	12 + (3)
Total	43 + (8)	7	10	1	7 + (3)	67 + (11)

Source: Sōgōshōsha nenkan (General trading companies almanac) (Tokyo, Seikei Tsushin Sha, 1974), p. 131.

Notes:

1. Figures as of the end of April, 1973.
2. ( ) indicates cases where capital is provided by trading companies alone but close relations with Japan's iron and steel industry exist in the supply of materials and other transactions.

by Japan's iron and steel manufacturers in their third wave of rationalization measures. The basic philosophy was that "in order to expand iron exports you must build factories with your own hands to create new demands."[57]

Nihon Tekko Renmei (Japan Iron and Steel Federation) reviews this trend for bigger steel exports to developing countries in the 1955–1964 period in the following terms: "In growth ratios wire rod exports to Latin America and steel board (less than two inches in thickness) exports to Asia achieved the best performance. This was due to the fact that local production of secondary products had begun in Latin America, and likewise for galvanized iron sheet metal and tin plates in Asia, all of which called for increased importation of materials."[58] Table 8 lists all overseas joint ventures in the iron and steel industry as of the end of April 1973. Geographically speaking, Asia occupies an overwhelming position, while the processing sector represents by far the most important activity.

In the domestic distribution network also, trading companies put most emphasis on a stable supply of commodities as their main function. In 1958, in the face of mounting competition, the existing system of price quotation was changed to that of open marketing; nevertheless, the open market price "should be based on the cost-plus formula, as was the case in the price quotation system, and the general principle should be the forward purchase contract, commissions and the CIF system,"[59] "in order to attain long-term stability."[60] It was this distribution system with general trading companies at the helm that compelled manufacturers to maintain, and even to spread, the pricing formula of adding an appropriate profit ratio to costs. The trading companies stabilized the flow of goods by the use of their complex and thorough distribution network throughout the country, reaching the smallest of the outlets, and by the provision of credit to agency shops and below. Further, they supplied raw materials to relatively small-scale open-hearth electric furnaces and rolling mills. Through such means as credit provision, participation in management, or investment, they consolidated and fixed business relations and stabilized the flow of raw materials to iron and steel both in terms of price and trade volumes. They were able to do this because they were core members of the Toka-kai (made up of designated dealers of Fuji Seitetsu and Yahata Seitetsu) and also because they had more power to procure capital than specialty traders or wholesalers. But the difference between general trading companies and specialty traders (and smaller traders) did not stem merely from a differing capacity of capital procurement for credit provision, but also from "the fact that general trading companies handle both domestic and foreign trade, that they take an integrated approach to the vast array of merchandise, that they have far superior marketing as well as investment capacity, and that specifically *vis-à-vis* iron and steel makers, they not only market the products but also bring in raw materials and machinery."[61]

General trading companies thus stood on an equal footing with iron and steel manufacturers in contributing to a more stable raw materials import and products export. On the domestic scene, they bought up residual commodities, necessary if the open marketing system was to be defended, thereby contributing to price stabilization. They stood at the apex of the pyramidal distribution system and streamlined that very system in a dominating manner. They also dominated steel makers that used electric open-hearth furnaces or smaller ones by a variety of means, including through the supply of raw materials, provision of credit, and marketing of their products, thus, however, contributing to supply stability. By supply stability what is meant is not only price stability but also the stability of trade volume of iron and steel products, semi-finished products, and raw materials.

We have examined the activities of general trading companies in the context of high growth, and most conspicuous among these activities are provision of technical information, importation of machinery and equipment, stable supply of raw materials, and stable marketing of finished products, as seen typically in the cases of iron and steel as well as in the petrochemical industries. General trading companies involved themselves in providing both

input and output *vis-à-vis* industrial capital, whose production process they helped to stabilize. They thus supported the high economic growth. Furthermore, since this high growth was a manifestation of heavy and chemical industrialization with private investment in plants and equipment playing the major role, and since these industries benefited from economies of scale (thus cutting costs by growing bigger), the services of the general trading companies in supplying raw materials and marketing products in a stable manner was an indispensable factor in achieveing high growth.

Naturally, the forms of importation underwent changes while supply stability was being sought. For instance, in securing iron-ore, the simple purchase of ores was superseded by the finance-purchasing of ores, and then by the development-and-import formula. While standing on an equal footing with big businesses in providing a stable supply of raw materials and stable market outlets, the trading companies alone or together with some manufacturers wielded a dominating influence on small and medium-sized enterprises when they systematized and stabilized distribution by providing credit or participating in management, or by dealing in both input and output. General trading companies thus had two faces.

General Trading Companies, 1965–1974

We have seen the kind of contribution trading companies made to the high economic growth during the 1955–1964 period. In the following decade, the Japanese economy plunged into the second growth period, led by vigorous exports. A heavier leaning toward exports created trade frictions, but it also raised the share of export in the trading companies' total business as well as that of third-country trading (see tables 9–14). On the domestic scene, general trading companies not only handled raw materials and finished products, but were also engaged in the creation of industrial complexes (as in the case of the foodstuffs sector), the formation of stock point, and the improvement of systems to deal with the growing and ever-changing needs of intermediate processing activities. Typical among these activities were the export of plants overseas, the formation of foodstuff complexes in Japan, and the formation of new combinations in physical distribution (such as the broiler integration).

Overseas advances by trading companies and manufacturers are of two types: to secure either a more stable supply of raw materials or a more stable export of finished products. And general trading companies were able to adapt themselves through either a complex intermeshing of all sorts of transactions or enlarged scales of transactions. Sharply on the rise were the kind of plant exports that were directly related to developing economies, such as electricity, steel manufacturing, and fertilizer production.

Let us survey this development through the case of non-ferrous metals. "In the 1955–1964 period, both ore and ingot were procured through spot purchases, but subsequently ore was bought through financing-purchasing of mines jointly with Japanese non-ferrous metal producers."[62] In the 1965–1974

Table 9. Mitsubishi Shoji business volumes by category of trade (in ¥ million, %)

	1962	Period ending in March	1962	Period ending in September	1964	Period ending in March	1964	Period ending in September	1966	Period ending in March	1966	Period ending in September	1968	Period ending in March
Exports	64,523	(15.6)	77,268	(18.1)	97,555	(16.2)	117,615	(18.7)	146,585	(18.7)	170,035	(20.7)	205,160	(18.1)
Imports	136,722	(33.0)	131,563	(30.7)	192,121	(31.9)	191,988	(30.4)	208,153	(28.0)	221,432	(27.0)	293,012	(25.9)
Third-country trade	9,933	(2.4)	10,182	(2.4)	13,649	(2.2)	13,349	(2.1)	11,798	(1.6)	16,132	(2.0)	23,546	(2.1)
Domestic	202,767	(49.0)	208,984	(48.8)	299,441	(49.7)	308,118	(48.8)	376,195	(50.7)	412,070	(50.3)	610,042	(53.9)
Total	413,946	(100.0)	427,998	(100.0)	602,767	(100.0)	631,072	(100.0)	742,733	(100.0)	819,670	(100.0)	1,131,762	(100.0)

	1968	Period ending in September	1970	Period ending in March	1970	Period ending in September	1972	Period ending in March	1972	Period ending in September	1974	Period ending in March	1974	Period ending in September
Exports	225,334	(19.0)	275,451	(15.7)	309,144	(15.9)	366,095	(16.4)	361,478	(15.2)	572,351	(13.8)	810,413	(17.0)
Imports	297,059	(25.0)	406,476	(23.1)	448,371	(23.1)	438,309	(19.6)	467,311	(19.6)	1,083,016	(26.0)	1,331,259	(28.0)
Third-country trade	31,424	(2.6)	54,708	(3.1)	67,565	(3.5)	113,172	(5.1)	111,578	(4.7)	249,004	(6.0)	342,046	(7.2)
Domestic	634,057	(53.4)	1,020,477	(58.1)	1,119,064	(57.5)	1,317,806	(58.9)	1,442,493	(60.5)	2,256,790	(54.2)	2,276,370	(47.8)
Total	1,187,875	(100.0)	1,757,112	(100.0)	1,944,144	(100.0)	2,235,382	(100.0)	2,382,860	(100.0)	4,161,161	(100.0)	4,760,148	(100.0)

Source: Yūkashōken hōkokusho (Mitsubishi Shoji financial statement).

Note: When original figures appear in ¥1,000, amounts less than ¥1,000,000 are omitted. When original figures appear in ¥1,000,000, they are recorded without change. The total thus fails to tally in some cases.

Table 10. Mitsui Bussan business volumes by category of trade (in ¥ million, %)

	1962	Period ending in March	1962	Period ending in September	1964	Period ending in March	1964	Period ending in September	1966	Period ending in March	1966	Period ending in September	1968	Period ending in March
Exports	67,204	(16.7)	68,020	(17.6)	86,087	(15.7)	114,944	(19.7)	175,545	(22.6)	184,592	(22.2)	203,192	(18.9)
Imports	107,644	(26.7)	98,915	(25.7)	145,229	(26.5)	136,328	(23.3)	177,438	(22.9)	197,883	(23.8)	278,878	(26.0)
Third-country trade	16,355	(4.1)	12,641	(3.3)	17,933	(3.3)	20,192	(3.5)	25,168	(3.2)	13,093	(1.6)	21,271	(2.0)
Domestic	211,381	(52.5)	205,750	(53.4)	298,466	(54.5)	312,290	(53.5)	398,623	(51.3)	436,550	(52.4)	568,990	(53.1)
Total	402,586	(100.0)	385,327	(100.0)	547,717	(100.0)	583,756	(100.0)	776,775	(100.0)	832,119	(100.0)	1,072,332	(100.0)

	1968	Period ending in September	1970	Period ending in March	1970	Period ending in September	1972	Period ending in March	1972	Period ending in September	1974	Period ending in March	1974	Period ending in September
Exports	233,220	(20.9)	318,413	(19.1)	346,603	(19.0)	417,206	(20.0)	421,336	(18.5)	581,468	(14.9)	823,568	(19.0)
Imports	274,031	(24.6)	396,034	(23.8)	453,121	(24.8)	398,317	(19.0)	421,156	(18.5)	863,766	(22.2)	994,745	(23.0)
Third-country trade	19,246	(1.7)	26,262	(1.6)	33,737	(1.8)	83,061	(4.0)	133,841	(5.9)	273,714	(7.0)	340,308	(7.8)
Domestic	589,896	(52.8)	924,862	(55.5)	993,862	(54.4)	1,192,598	(57.0)	1,301,564	(57.1)	2,176,760	(55.9)	2,173,084	(50.2)
Total	1,116,394	(100.0)	1,665,572	(100.0)	1,827,324	(100.0)	2,091,182	(100.0)	2,277,897	(100.0)	3,895,708	(100.0)	4,331,705	(100.0)

Source: Yūkashōken hōkokusho.
Note: See note in table 9.

Table 11. Marubeni business volumes by category of trade (in ¥ million, %)

	1962	Period ending in March	1962	Period ending in September	1964	Period ending in March	1964	Period ending in September	1966	Period ending in March	1966	Period ending in September	1968	Period ending in March
Exports	51,361	(13.7)	58,382	(15.6)	70,087	(13.5)	75,693	(13.6)	106,930	(18.7)	131,981	(19.7)	146,264	(17.8)
Imports	88,962	(23.7)	85,513	(22.9)	104,587	(20.2)	111,210	(20.1)	104,062	(18.2)	133,884	(20.0)	178,999	(21.8)
Third-country trade	9,231	(2.5)	9,888	(2.7)	19,203	(3.7)	20,326	(3.7)	22,486	(4.0)	20,329	(3.1)	23,575	(2.9)
Domestic	225,630	(60.1)	219,764	(58.8)	324,641	(62.6)	346,685	(62.6)	337,745	(59.1)	382,877	(57.2)	471,754	(57.5)
Total	375,186	(100.0)	373,551	(100.0)	518,519	(100.0)	553,916	(100.0)	571,224	(100.0)	669,073	(100.0)	820,593	(100.0)

	1968	Period ending in September	1970	Period ending in March	1970	Period ending in September	1972	Period ending in March	1972	Period ending in September	1974	Period ending in March	1974	Period ending in September
Exports	164,889	(19.0)	205,338	(18.0)	223,699	(17.3)	319,272	(21.9)	333,389	(21.2)	447,341	(18.0)	672,831	(24.4)
Imports	188,218	(21.6)	220,076	(19.3)	249,440	(19.3)	213,383	(14.7)	232,483	(14.8)	521,351	(20.9)	572,968	(20.8)
Third-country trade	21,832	(2.5)	30,044	(2.6)	33,861	(2.6)	50,836	(3.5)	73,652	(4.7)	131,436	(5.3)	201,618	(7.3)
Domestic	495,510	(56.9)	686,798	(60.1)	787,097	(60.8)	872,498	(59.9)	932,226	(59.3)	1,391,447	(55.8)	1,308,754	(47.5)
Total	870,451	(100.0)	1,142,258	(100.0)	1,294,099	(100.0)	1,455,989	(100.0)	1,571,750	(100.0)	2,491,575	(100.0)	2,756,171	(100.0)

Source: Yūkashōken hōkokusho.
Note: See note for table 9.

Table 12. C. Itoh & Co. business volumes by category of trade (in ¥ million, %)

	1962	Period ending in March	1962	Period ending in September	1964	Period ending in March	1964	Period ending in September	1966	Period ending in March	1966	Period ending in September	1968	Period ending in March
Exports	45,636	(12.8)	55,264	(15.4)	63,845	(12.8)	73,450	(13.5)	79,380	(13.8)	82,134	(13.8)	106,515	(14.3)
Imports	71,195	(20.0)	66,210	(18.5)	104,994	(21.0)	106,507	(19.7)	111,837	(19.5)	119,041	(20.1)	161,546	(21.6)
Third-country trade	4,075	(1.1)	8,632	(2.4)	20,243	(4.0)	23,186	(4.3)	19,089	(3.3)	25,357	(4.3)	27,627	(3.7)
Domestic	235,929	(66.1)	228,131	(63.7)	311,581	(62.2)	338,720	(62.5)	364,414	(63.4)	366,009	(61.8)	451,053	(60.4)
Total	356,836	(100.0)	358,238	(100.0)	500,665	(100.0)	541,865	(100.0)	574,720	(100.0)	592,542	(100.0)	746,743	(100.0)

	1968	Period ending in September	1970	Period ending in March	1970	Period ending in September	1972	Period ending in March	1972	Period ending in September	1974	Period ending in March	1974	Period ending in September
Exports	130,854	(16.5)	165,755	(14.9)	185,072	(15.0)	218,873	(15.8)	236,894	(16.3)	363,527	(15.4)	519,787	(20.0)
Imports	166,547	(20.9)	211,254	(19.0)	251,028	(20.4)	277,843	(20.1)	283,194	(19.4)	581,255	(24.6)	635,009	(24.5)
Third-country trade	32,152	(4.0)	62,871	(5.6)	71,913	(5.8)	110,284	(8.0)	117,332	(8.1)	131,220	(5.5)	151,387	(5.8)
Domestic	465,824	(58.6)	672,500	(60.5)	725,148	(58.8)	775,182	(56.1)	817,802	(56.2)	1,289,185	(54.5)	1,288,121	(49.7)
Total	795,378	(100.0)	1,112,382	(100.0)	1,233,163	(100.0)	1,382,182	(100.0)	1,455,222	(100.0)	2,365,187	(100.0)	2,594,304	(100.0)

Source: Yūkashōken hōkokusho.
Note: See note for table 9.

Table 13. Sumitomo Shoji business volumes by category of trade (in ¥ million, %)

	1962	Period ending in March	1962	Period ending in September	1964	Period ending in March	1964	Period ending in September	1966	Period ending in March	1966	Period ending in September	1968	Period ending in March
Exports	15,533	(11.2)	19,281	(14.4)	30,763	(15.3)	29,650	(13.5)	52,982	(20.9)	69,512	(23.0)	67,750	(16.2)
Imports	22,241	(16.1)	21,057	(15.7)	34,550	(17.2)	38,432	(17.6)	38,483	(15.1)	50,137	(16.6)	75,435	(18.0)
Third-country trade	2,601	(1.9)	3,024	(2.2)	6,036	(3.0)	6,564	(3.0)	7,203	(2.8)	9,701	(3.2)	14,041	(3.4)
Domestic	98,000	(70.8)	90,926	(67.7)	129,489	(64.5)	144,053	(65.9)	155,584	(61.2)	173,250	(57.2)	261,338	(62.4)
Total	138,376	(100.0)	134,289	(100.0)	200,840	(100.0)	218,701	(100.0)	254,252	(100.0)	302,601	(100.0)	418,617	(100.0)

	1968	Period ending in September	1970	Period ending in March	1970	Period ending in September	1972	Period ending in March	1972	Period ending in September	1974	Period ending in March	1974	Period ending in September
Exports	88,352	(18.9)	126,025	(17.8)	148,510	(18.1)	215,794	(21.5)	212,941	(19.2)	314,888	(14.5)	448,877	(17.9)
Imports	77,996	(16.7)	114,039	(16.1)	135,555	(16.5)	136,909	(13.6)	156,067	(14.1)	350,288	(16.2)	438,571	(17.5)
Third-country trade	16,405	(3.5)	20,666	(2.9)	25,709	(3.1)	57,092	(5.7)	86,385	(7.8)	232,902	(10.7)	230,491	(9.2)
Domestic	284,212	(60.9)	446,540	(63.2)	511,014	(62.3)	594,308	(59.2)	653,352	(58.9)	1,270,553	(58.6)	1,385,408	(55.4)
Total	466,966	(100.0)	707,272	(100.0)	820,790	(100.0)	1,004,103	(100.0)	1,108,745	(100.0)	2,168,631	(100.0)	2,503,347	(100.0)

Source: Yūkashōken hōkokusho.
Note: See note for table 9.

Table 14. Nissho Iwai business volumes by category of trade (in ¥ million, %)

	1962	Period ending in March	1962	Period ending in September	1964	Period ending in March	1964	Period ending in September	1966	Period ending in March	1966	Period ending in September	1968	Period ending in March
Exports	14,097	(11.4)	17,925	(15.6)	34,508	(17.6)	45,248	(20.5)	54,873	(22.4)	56,380	(20.1)	64,448	(17.7)
Imports	35,811	(28.8)	27,045	(23.5)	54,474	(27.8)	58,065	(26.3)	61,827	(25.3)	74,503	(26.5)	100,140	(27.6)
Third-country trade	1,937	(1.6)	2,965	(2.6)	4,515	(2.3)	8,418	(3.8)	8,738	(3.6)	12,345	(4.4)	16,223	(4.5)
Domestic	72,294	(58.2)	67,034	(58.3)	102,295	(52.3)	109,027	(49.4)	119,335	(48.7)	137,382	(49.0)	182,450	(50.2)
Total	124,139	(100.0)	114,971	(100.0)	195,794	(100.0)	220,759	(100.0)	244,774	(100.0)	280,611	(100.0)	363,263	(100.0)

	1968	Period ending in March	1970	Period ending in September	1970	Period ending in March	1972	Period ending in September	1972	Period ending in March	1974	Period ending in September	1974	Period ending in March
Exports	71,668	(18.7)	128,520	(16.0)	145,498	(16.0)	192,332	(20.0)	179,660	(16.9)	286,129	(15.4)	418,745	(20.5)
Imports	98,482	(25.8)	191,300	(23.8)	238,617	(26.3)	202,337	(21.0)	225,733	(21.2)	448,404	(24.2)	469,688	(23.1)
Third-country trade	19,806	(5.2)	48,234	(6.0)	61,192	(6.8)	70,595	(7.3)	99,663	(9.4)	183,843	(9.9)	189,348	(9.3)
Domestic	192,021	(50.3)	435,484	(54.2)	462,263	(50.9)	498,039	(51.7)	559,526	(52.5)	936,842	(50.5)	959,430	(47.1)
Total	381,980	(100.0)	803,540	(100.0)	907,572	(100.0)	963,303	(100.0)	1,064,582	(100.0)	1,855,218	(100.0)	2,037,211	(100.0)

Source: Yūkashōken hōkokusho.
Note: See note for table 9.

period, trading firms were more deeply involved not merely through financing and participation in the mining phase but also through investments. They were in fact going forever upstream in search of raw materials, and more and more assets were being fixed in investments and not just for financing. This naturally increased the element of risk, but it was aimed at finding "how to import inexpensive raw materials inexpensively."[63] In other industrial sectors, too, a stable supply of raw materials inevitably pushed trading firms ever upstream and into assuming greater risks. Moreover, they had to be able to supply the appropriate raw materials in order to engage in plant exports. In fact, participation in plant exports became related to a stable supply of raw materials. Looking at it from another angle, one could say that the prevalence of the development-and-import scheme signified the end of the validity of the earlier scheme of merely financing development efforts in order to secure stable supplies. Unless the effort is supported by the "broad consensus throughout the government and by the people of the countries producing raw materials, large-scale development projects become impossible."[64] But seen from the point of view of trading firms' interests, the older financing-purchasing formula merely gave all the gains from inflation (because inflation was rampant in those days) to the local mining companies, while direct investment makes it possible for the trading firms themselves to reap the inflation gains.

After 1965 plant exports assumed a significant place in Japan's general export performance, along with automobiles and steel. In comparison with other export commodities, plant exports had higher values added, were technology intensive, and had a high foreign currency yield. Other merits of plant exports included an extensive backward linkage affecting Japanese industries, thereby creating a large number of jobs. Moreover, plant exports could easily lead to more plant exports as well as to follow-up exports, because the turn-key formula often took the past export performance as a critical element in additional plants to be exported, and once a plant started to operate, it required raw materials and parts to continue successful operation.[65] Japanese plants were exported to South-East Asia, Latin America, Communist countries, East Asia, and the Middle East, and to a far lesser degree, to North America, Europe, and Australia. They were mostly plants for chemical fertilizers, iron and steel manufacturing, and electricity generation. Plants on the turn-key formula amounted to 35.7 per cent of total plant exports in 1974, which increased to 40.8 per cent the next year.[66]

Plant exports required the participation of trading companies as an essential element. First of all, because of the usual long gestation period and the need for constant contact with the client abroad, the broad overseas network that trading companies commanded and its alert functioning were vital. Second, there were often cases in which a production-sharing formula was adopted, particularly in the case of developing countries, by which payment for the exported plant was made in the form of the products of that very plant, in which case a trading company's marketing ability was also essential. Third, there was a definite need for the organizer function of a trading com-

pany to be fully exercised in such areas as the co-ordination among the various enterprises involved and in such agency tasks as conclusions of contracts abroad, plant construction, and initial operation of the plant.

From the point of view of the trading companies, plant exports had the double effect of the plant exporting itself and the stable export of raw materials and other necessities once the plant has been completed. Let us take an example. The Elizalde group in the Philippines established Elizalde Iron and Steel Corporation (ELISCO) in 1962 by introducing a tin plating apparatus and importing much of the needed steel from Japan. Mitsui Bussan, which had lagged behind in the export of rolled steel, committed itself in the Elizalde group's plan to construct an integrated steel works, and was successful in instantly raising its share of rolled steel exports when it started to export rolling mills. This was possible because Mitsui Bussan was successful in obtaining an order to export plants as well as know-how at the time of the construction of the cold rolling mill by ELISCO in 1966, and this resulted in the discontinuation of existing imports of steel for cold rolling from Japan, and in a newly arising demand for hot coils needed for the new rolling mill just completed, which Mitsui Bussan supplied.[67] This is a clear example of how plant exports led to export activities of a higher order.

In the 1965–1974 period, trading companies also engaged in both input and output *vis-à-vis* a variety of companies in Japan and vigorously created new flows of products by combining the two-way transactions. General trading companies not only exported plants but supplied machinery and equipment for new projects in Japan also and supplied raw materials and marketed finished products once a plant had become operational.

Let us take up the case of the broiler business. Sumitomo Shoji "started to deal in broilers around 1959, when we completed our feed marketing network in Japan and started selling chickens to farmers and collecting fowl and pigs. In 1966 we constructed the Maruho broiler processing plant at Tadotsu in Kagawa Prefecture in cooperation with Nisshin Flour Milling, and with this we were able to handle in an integrated way both sales of feed to farmers and collection/processing/marketing of broilers."[68] In this and similar ways trading companies systematized the flow of materials and products in the broiler business by both supplying needed materials and marketing finished products. It must be said, however, that this form of operation did not arise for the first time in this period; Mitsui Bussan had had this sort of flow of merchandise before the war.

"Grand champions in sumo wrestling should have a style, but Yasukawa (Yunosuke) would do anything to win a match, tripping his opponent and even throwing sand in his opponent's eyes, although he surely is a grand champion. I will give you an example of how he did business. He would first stock incubators, and sell them to chicken farmers. When the eggs were hatched, he would import cheap feed from somewhere, like Canada, and sell that, too. When the chicks grew big enough to lay eggs, he would buy up all the eggs and become the only seller in the market, thus controlling the market monopolistically. You understand how he operates."[69]

This is a criticism of pre-war Mitsui Bussan, but it does serve as an example of how it penetrated local markets by making the best use of its functions.

Marubeni integrated its broiler business in a similar way. When in 1955 giant freighters and giant silos became available, the production of combination fodder started to rise dramatically, while the demand remained relatively stagnant. In order to expand feed sales, Marubeni embarked on broiler integration. First, it selected appropriate varieties of fowl as an important element in broiler integration. Its foodstuffs department asked other departments and sections to pass on whatever information might be available on the selection of the best stocks, and thus came across the Ross Group in Great Britain (through Marubeni's London branch office), which handled fowl for meat production under the name "Chunky." In September 1966 4,000 seed chickens were brought to Japan from the Ross Group and were put to experimental breeding. In June 1967 Marubeni established Japan Chunky in Okayama Prefecture to produce the pure stock. As figure 4 clearly shows, the great broiler integration was a combination of the two flows of the pure stock flow and the compound feed flow. On the marketing front, Marubeni "was able to obtain the cooperation of ham and sausage manufacturers, supermarkets, and department stores (with which Marubeni had long-standing business relations), so that it was able to rely on fixed-time and fixed-amount delivery."[70]

Lastly, let us examine the case of wheat flour, which illustrates how various commodities were combined to make a business. Since 1958, Sumitomo Shoji had been exporting flour manufactured by Nisshin Seifun (Nisshin Flour Milling) (with which there had been a long-standing business relationship in domestic marketing) and importing wheat for this flour milling company. In 1963 Sumitomo Shoji was designated to handle King brand Chinese noodles of Segawa Shoten (to which it had been selling wheat flour), and the next year, it became the sole agent in the Osaka area to market instant Chinese noodles by Ace Cook. Around 1964, Sumitomo Shoji started to increase its sales of bread, Japanese noodles, and Chinese noodles in Osaka, which all used flour from Nisshin Seifun.

Subsequently, a technique was devised for vacuum packing of cooked Japanese noodles by using irrax, a packaging material of polyethelene film produced by Sumitomo Kagaku and reinforced by the application of radioactive rays by Sumitomo Denki Kogyo. Sumitomo Shoji sold irrax and wheat flour to Segawa Shoten and Sanyo Shokuhin Kogyo and became their sole marketing agent.[71] The dual flow combination mentioned with regard to the broiler industry characterized this case of business integration also.

For better or worse, high economic growth ushered in the age of mass consumption. Changes in national diet in particular enlarged the scale of food imports, such as meat, soya, and wheat and other cereals, manifesting itself in the formation of foodstuff industrial complexes. As seen in the case of the iron and steel industry, general trading companies wanted both to secure stable sources of raw materials and, by means of constructing industrial complexes along Japan's seacoasts, to process the imported raw materials

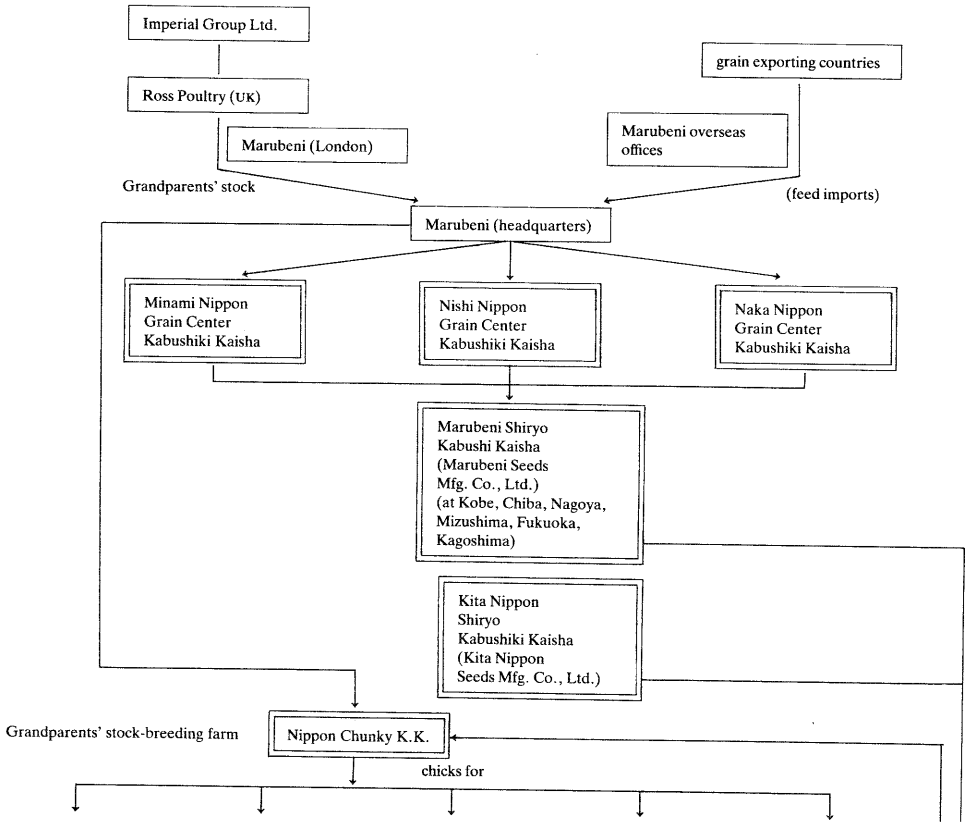
into finished goods. Furthermore, they worked toward both spatial and temporal efficiency by having their own stock points and processing functions in the distribution system. The establishment of the processing sector in the midst of the distribution network was possible first of all on the basis of flow of commodities; it in fact represented a systematizing effort of distribution of a high order. At the same time, it was an attempt to minimize distribution costs by participating in that process on its own behalf. The foodstuff industry in Japan traditionally "had tended to be split up into small bits, with no organization in the flow from raw materials to finished products," and trading companies were able to reduce distribution costs by bringing in some elements of organization.[72] The most typical case would be that of Konan Foodstuff Complex built in Kobe by Mitsui Bussan.[73] A number of enterprises dealing with a range of merchandise from raw materials to finished products together reaped the fruit of the economies of scale. For instance, wheat flour can be produced inexpensively if the wheat is supplied from giant wheat freighters through giant pipes, but if the wheat flour is to be supplied to confectioneries, noodle makers, and other manufacturers scattered far and wide, the effect of lower cost in the production of wheat flour is lost along the way. At the Kobe Konan Foodstuff Complex, attempts were made to "gather all the secondary processors like flour millers, edible oil refineries, sugar refineries, feedstock producers, and confectioneries at one place as well as the final-stage processors like noodle makers, instant Chinese noodle makers, candy makers, dairy product makers, frozen food makers, and ham and sausage makers so that integrated food production could be attained embracing all the processes."[74]

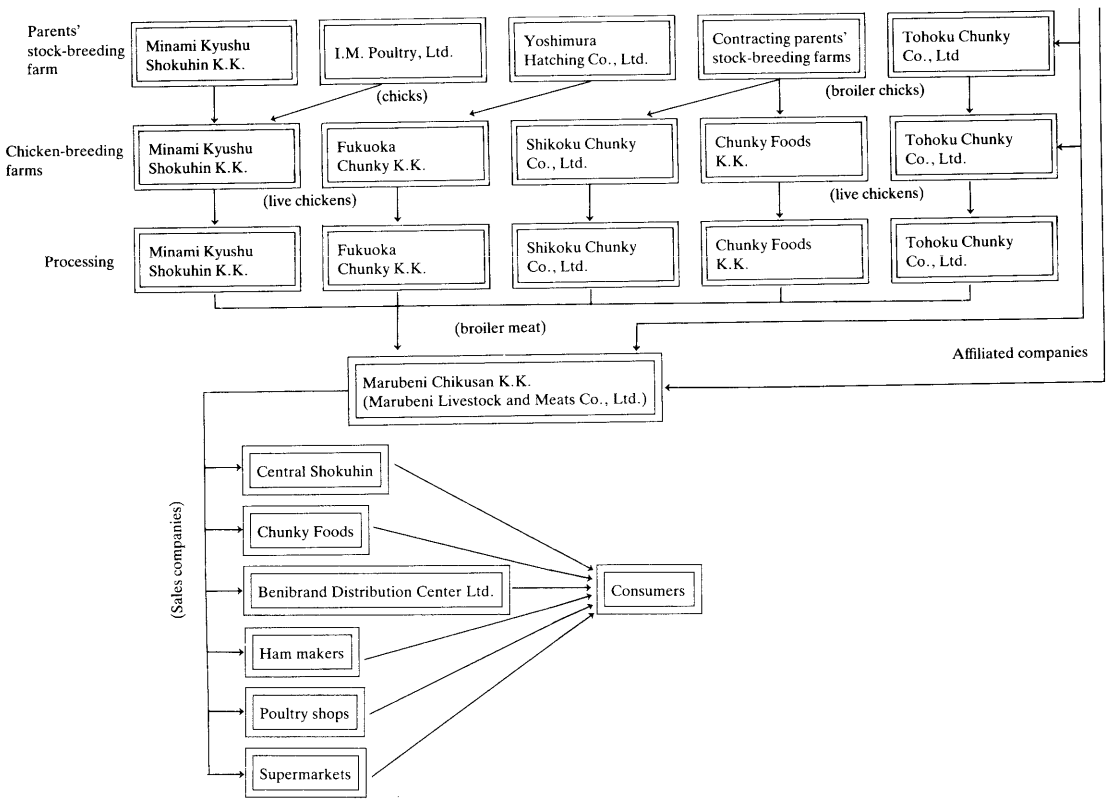
As a pre-condition to the formation of foodstuff complexes, general trading companies went about securing stable supply sources.[75] An immediate example is the deepening ties with American grain dealers. In 1969 Mitsui Bussan absorbed United Grain (UGC) of Portland, Oregon, obtained two seaboard elevators, and acquired, in 1978, one seaboard elevator and seven Midwest inland elevators from a major grain dealer, Cook and Industry Co., Ltd. Marubeni also acquired in 1978 the seaboard elevators at Portland that had been leased to it from Cook. In the following year, Mitsubishi Shoji purchased stocks of Koppel Corporation to possess a seaboard elevator and four country elevators. Moreover, Sumitomo Shoji tied up with Coast Trading Co., Ltd., in 1981 and announced the construction of a seaboard elevator with the capacity to store 117,000 tons, to be completed in 1983.[76] By thus acquiring grain elevators to export grains to Japan, the Far East, and Mexico, general trading companies built a firm basis for a stable supply of grains.

Conclusion: The Functions of General Trading Companies

In analysing the functions of general trading companies, one should not be dazzled by the great variety of merchandise they handle. The essence of all their functions is to systematize the flow of various commodities from the raw

Figure 4. Marubeni broiler integration organizational chart





Source: Marubeni, *Business documentary*, 1966–1975, p. 36.

material phase to that of finished products. We must therefore analyse the way in which they accomplish this systematization. In systematizing distribution by providing both inputs and outputs at various stages of the production process, the general trading companies also make contact with big businesses upstream as well as with those relatively small or medium-sized enterprises located midstream and downstream. *Vis-à-vis* enterprises in the same firm groups and such big businesses as Shin Nihon Seitetsu (New Japan Steel Corporation) and other independent firms, general trading companies provide raw materials and market the finished products on an equal basis and in a mutually independent relationship, with mass production and mass marketing serving both sides. On the other hand, *vis-à-vis* small and medium-sized enterprises, general trading companies act on an assumption of their superiority over their partners, and create new flows of raw material procurement and product marketing by firmly grasping these processes on the basis of credit provision. Credit provided by general trading companies domestically, therefore, is an indispensable element in systematizing distribution. Again, one should not be preoccupied merely with functional differences between credit provision by trading companies and that by banks. From a macro viewpoint, one can see that trading companies complete the credit chain by placing themselves between banks and manufacturers, thereby expanding this chain, which also allows trading companies to stand in a superior position to manufacturers through the use of bank assets, and thereby organize distribution. Moreover, by handling both input and output, trading companies are further able to expand credit. This contributes to the attainment of higher efficiency in financing, because "there are cases where you sell raw materials to a manufacturer but at the same time handle their finished products to be marketed domestically or exported. You sell and buy with the same entity, and the difference between the two transactions is the credit you provided to that entity. This raises efficiency in managing assets."[77] General trading companies not only earned commissions in commodity transactions but also in credit provision, transportation, insurance, warehousing, information provision, and other related businesses, which also supported their effort to systematize distribution.[78] Small individual commissions in these businesses constituted an effective barrier to new entries.

During the high growth period, manufacturers were able to grow by having strong ties with trading companies. Manufacturers were after new technologies and large-scale investment due to the operation of economies of scale, forcing their investments mainly in productive facilities. This made room for trading companies to come in and be active in distribution. In a way, the high growth of the Japanese economy was accomplished by both division of labour and complementary relations between trading companies and manufacturers. In this sense, too, big businesses and trading companies were mutually dependent. And general trading companies were at the core of the division of labour, as can be explained as follows in the case of their relations with power companies:

The amount of investment in equipment by the nine power companies [of Japan] being enormous, we the Mitsubishi group consider our relations with them indispensable. Electric equipment companies in our group sell generators and Mitsubishi Shoji sells fuels. Since machinery manufacturers operate mainly on their plant level [Mitsubishi] Shoji act on their behalf, activitating all its branch offices throughout the country, maintaining constant contact with the power company, receiving orders, and providing information to them. The Mitsubishi group also carries out intra-group division of labour, so to speak.[79]

Let us now look at the competitive aspect of the systematizing effort regarding distribution. In the systematized flow of commodities, stability and monopolistic trends by firm groups are often pointed out as conspicuous, but competition is the order of the day between the same category of products manufactured by companies belonging to different enterprise groups.[80] Competition arises between distribution networks of different general trading companies, and economic rationality is pursued. One must not overlook the formation of distribution systems under the conditions of competition and stability.

The Fair Trade Commission has issued two reports on the activities of trading companies in creating and systematizing the flow of merchandise from the raw material stage to that of the semi-finished or finished product, and the commission has criticized the activities as constituting an unfair practice based on superior positions. Trading companies have attempted to offer counter-criticisms. Such a course of debate is critical in view of its direct relevance on the activities of trading companies. The Fair Trade Commission established the Consultative Group on Antitrust Policy made up of learned men in various fields in order to "promote an effective and appropriate anti-monopoly policy, matching the violent changes in the economy of the country."[81] The first meeting of this forum was convened on 26 November 1968. At its forty-fourth meeting on 22 January 1974, the forum took up trading companies based on the reference material submitted, entitled "Report of the Survey of General Trading Companies." Further, at its fifty-second meeting on 22 January 1975, trading companies' activities were discussed, and another report was submitted, entitled "Report of the Second Survey of General Trading Companies – On the Problem of Trading Companies from the Viewpoint of an Anti-Monopoly Policy." The first report dealt with the Big Six of Mitsubishi Shoji, Mitsui Bussan, Marubeni, C. Itoh, Sumitomo Shoji, and Nissho-Iwai, and the second one added the following four companies to the list of surveyed general trading companies: Tomen, Kanematsu Gosho, Ataka Sangyo, and Nichimen Jitsugyo. But the arguments presented in these two reports largely overlap with each other. Faced with this general criticism of their activities, trading companies issued two documents of counter-criticism through Nihon Boeki Kai (Japan Foreign Trade Council): one on 4 July 1974 entitled "General Trading Companies – Their Functions and True Nature: In Response to the Issues Raised by the

Diet Deliberations and the Fair Trade Commission," and the second on 6 February 1975 entitled "On the Fair Trade Commission's 'Report of the Second Survey of General Trading Companies.'"

A detailed description of this debate is not the purpose here. We review the problems that the above-mentioned systematization of distribution raise in relation to the anti-monopoly policy that is in effect. The point of focus is the two-sided relations of these trading companies with big businesses on the one hand and with small and medium-sized enterprises on the other, and the systematization of distribution on the basis of this double-sidedness. The Fair Trade Commission summarizes the activities of general trading companies under the following three headings: "(1) to promote systematization of enterprises with which they do business; (2) to vertically systematize (integrate) the processes from raw materials importation to the marketing of (finished) products; and (3) to serve as the core organization of big projects, such as natural resources development, by grouping various related enterprises together."[82]

This is a superb summary. Relations with big businesses and with small and medium-sized enterprises remained somewhat ambiguously defined in the first report, but in the second report the point was made entirely clear. The commission's second report, in Section Three (General Trading Companies and Enterprise Groups), deals with this two-sided relationship, where it is described that the member companies whose presidents form a club usually buy about 30 per cent of their materials and sell approximately the same percentage of their shipments through the trading company that serves as the core of the group, and goes on to claim that "(this percentage) seems rather high in view of the fact that there are commodities like automobiles and household electric appliances which fall outside the trading spheres of these trading companies."[83]

Section Four (Utilization of Positions in Transactions by Trading Companies) of the same report describes nine specific cases, and Section Five, (Problematic Points as Viewed from the Anti-Monopoly Policy) criticizes trading companies' practice of grouping various small enterprises together and systematizing them on the basis of their position of power *vis-à-vis* smaller companies. Systematization of these smaller companies by means such as acquisition of stocks, credit provision, and representation in the smaller companies' board meetings "would bring about expansion and stabilization of business relations by more consolidated affiliations with clients from the point of view of general trading companies," but an overwhelming number of those companies whose stocks trading companies try to acquire are small or medium-sized in scale, "which suffer excessively from an obviously weaker relative position vis-à-vis general trading companies in business dealings, naturally giving rise to domination and dependency relations between the two."[84]

Such systematization of distribution naturally has an aspect of "contributing to modernization and rationalization of processing and physical distribution in this country,"[85] but at the same time, it is accompanied by depen-

dency relations, doing away with the independent nature of enterprises. For instance, in the case of sugar refining, a structurally depressed industry in Japan, "trading companies would take care of crude sugar purchase, buying it at the best point in the time in the fluctuating market and importing it. They would also market the products. Sugar refining companies would only have to 'clean' the black crude sugar to make it white. They pay for the crude sugar after three or four months of actual delivery but get cash on the spot when the finished product is handed in to trading companies."[86] The independence of these sugar refineries is indeed a precarious concept under such circumstances.